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MEASURING POVERTY

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

JUNE 14, 1990

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MEASURING POVERTY

THURSDAY, JUNE 14, 1990

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to notice, at 10:05 a.m., in room 340, Cannon House Office Building, Hon. Lee H. Hamilton (chairman of the committee) presiding.

Present: Representatives Hamilton, Hawkins, Obey, Solarz, and Upton.

Also present: Joseph J. Minarik, executive director; Joe Cobb, minority staff director; and Pat Ruggles, Chad Stone, Chris Frenze, and Scott Borgemenke, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE HAMILTON, CHAIRMAN

Representative HAMILTON. The Joint Economic Committee will come to order.

This morning the Joint Economic Committee will hold a hearing on the measurement of poverty. The major purpose of this hearing is to examine the official definition of poverty used by the Census Bureau in publishing poverty statistics, and to consider whether changes are needed in this measure to bring it up to date. This hearing is the third in the committee's continuing series on the quality of Federal statistics.

We are pleased to hear from three distinguished witnesses today: Mr. Robert Greenstein, director of the Center on Budget and Policy Priorities; Ms. Kathleen Scholl, from the Public Policy Institute of the American Association of Retired Persons; and Mr. John Weicher. Although Mr. Weicher is an Assistant Secretary at the Department of Housing and Urban Development, he is here today as an expert on poverty measurement, and not in his official capacity. We understand that his testimony represents his own views on this issue and not those of the administration.

To assure adequate time for questions and discussion, please limit your oral statement to no more than 10 minutes. A light system in the hearing room will advise you when you have 2 minutes remaining, and when your time is up. Your prepared statements will be entered in the record in full.

We are glad to have you and we will begin the testimony. Mr. Greenstein, we will begin with you.

STATEMENT OF ROBERT GREENSTEIN, DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES

Mr. GREENSTEIN. I am director of the Center on Budget and Policy Priorities. I would like to convey that the official measurement of poverty is in need of a comprehensive review. The review should cover both where to set the poverty line and what should be counted as income when poverty is determined.

Unfortunately, in recent years, most attention has been focused just on what we should count as income, and should we count noncash benefits. Less attention has been paid to the equally important issue of where the poverty line itself should be set.

As you may know, the current poverty line was established in the 1960's based on data from the mid-1950's showing that the average household spent one-third of its income on food. The cost of the least expensive food plan that the Agricultural Department had devised was multiplied by 3 and the result was the poverty line. Today, 35 years after the data were collected, this still remains the basis for our poverty line. It is simply updated each year for inflation. Serious questions now need to be raised about that poverty line methodology.

For example, while the average family spent a third of its income on food in the mid-1950's, it only spends one-seventh of its income on food today. Even the average poor family only spends one-fifth of its income on food today. If we had updated the poverty line methodology to use the current ratios of food to household budgets, we would have a very different and significantly higher poverty line than we now do.

Or you could look at it another way. Why should the poverty line be based totally on one necessity item—food. Suppose one were to base it on fair market rent for housing and use the HUD assumption that the low-income household shouldn't spend more than 30 percent of their income on rent. That too would give you a very different set of poverty thresholds.

The point I am making is not that that is the way to do it, but that the current poverty line methodology is both out of date and somewhat arbitrary.

There is also a further problem in letting decades go by without reexamining how we set the poverty line. The problem here is that over time what society recognizes to be a minimally accepted standard of living changes. This point is particularly well made by Patricia Ruggles in her recent book, "Drawing the Line," where she notes that if we had been constructing a market basket of necessities a century ago, we would not have included electricity or indoor plumbing, but few people today would say that the poor should be without electricity or indoor plumbing. Even in 1955 many of the rural poor had no indoor plumbing. That is less common today. And in 1955 not many women worked outside the home and incurred the costs of paid child care. That was not part of their budget to anywhere near the degree that it is today.

All of these are reasons why we need to take a new look, a fresh look, at how we set the poverty line thresholds. I would simply note that the study this committee's staff released last October gave a hypothetical example of some families at the proverty line that

were working and that had very modest food, housing, and child-care costs, much lower than the typical family would find. And the examples still show that the family had only $30 a month left for all other needs including clothing, medical care, soap, toothpaste, et cetera.

It seems to me, Mr. Chairman, that we have today before us growing evidence that the public or at least the policymakers who represent the public increasingly find the current poverty thresholds to be unrealistic. This is reflected in actions taken by the Federal Government over the past decade in setting income limits for means-tested programs.

Take the food stamp program, for example. In 1981, the Reagan administration said that the income limits should be 130 percent of the poverty line—that that was the defining point for who was truly needy. The administration also said that that should be the income level for the school lunch program. Congress accepted both of those Reagan administration recommendations.

Last fall the Congress set the income limit for pregnant women and young children for Medicaid nationally at 133 percent of the poverty line. In the Energy Assistance Program, the Federal Government requires States to set the thresholds between 110 and 150 percent of the poverty level.

The point I am making is that the decisions to set these income limits at levels above the official poverty line suggests to me that we as a society regard people with incomes modestly above the poverty line as still being poor enough to need these basic forms of assistance. It seems odd to me that households classified as truly needy by the most conservative administration in half a century are not categorized as poor under our official poverty definition.

In my prepared statement, I mention several other things that some of the other witnesses will cover, including the problems of having a lower poverty line for the elderly than for everyone else. This is based again on the assumptions from the 1950's showing that the elderly spent less on food than other households. But the way we set the poverty line is tantamount to an assumption that because the elderly have lower food cost needs than other households, they similarly have lower expenditure needs in all other areas as well. And we know that this isn't the case. The elderly, despite Medicare and Medicaid, spend several items as much out of pocket as a proportion of their income on health care costs as younger households do, and we simply have no good analytic basis for having a different lower poverty line for the elderly.

Another issue that has been raised is the question of how we adjust the poverty line for inflation. I am sure that John Weicher is going to talk about that.

Let me simply say on that subject this morning, on the one hand, I don't think that there's too much question among analysts that the Consumer Price Index overmeasured inflation for 15 years, during the time it was used to adjust the poverty line.

On the other hand, I think that there are some other questions that need more examination. The Consumer Price Index tracks inflation for everyone. There is some evidence to suggest that necessities, which are a disproportionately higher share of the budget of poor people as compared to average people, rose faster than the al-

ternative CPI measure for that period. And there are therefore some questions about whether we should simply do retroactive adjustments.

There are also a couple of other issues that I won't go into in detail now. Suffice it to say that I think that it is premature to conclude that we need to retroactively adjust the poverty line. I think it is an issue needing some further investigation, just as the issue of how to set the poverty line itself is.

In short, what I am saying is that we have to look at all of these issues together as part of a comprehensive review. We cannot piecemeal pick out one issue or the other issue without really looking at all of them. And, of course, the other set of issues involves what to count as income. Like many analysts, it seems to me that there is some merit in considering counting various forms of food and housing benefits like food stamps which are easy to determine the value of and do free up household income for other necessities.

On the other hand, there are very serious problems with trying to measure medical benefits. I would not, for example, support the Census Bureau's latest attempt to assign an income value to medical benefits. While superior to what the Census Bureau did earlier in the 1980's, this method still essentially assumes that once food and housing costs are taken care of, 100 percent of the household's remaining income is available for medical costs, as though there were no clothing costs, no transportation costs, or other expenditures of that sort. I am not sure that we can come up with any good way to count the medical costs, but let me simply say that at the Census Bureau's conference of poverty analysts a few years ago, the conclusion among the analysts was that if you count medical benefits as income, then you have to recalculate and raise the poverty line. And this is really the conclusion. I will wrap up here.

The conclusion is that what we need is a thorough and comprehensive review of the poverty measure. We cannot look at just what benefits we should count and how to value them. We cannot look at simply did we overmeasure inflation. We have to look at all of the issues, and central among them has to be the key question of what should the poverty line itself be to reflect a relevant realistic measure of hardship in the 1990's. Only through a comprehensive approach can we make progress in a balanced manner.

Thank you.

[The prepared statement of Mr. Greenstein follows:]

PREPARED STATEMENT OF ROBERT GREENSTEIN

I appreciate the invitation to testify before the Committee today. I am Robert Greenstein, director of the Center on Budget and Policy Priorities here in Washington, D.C. The Center on Budget and Policy Priorities is a non-profit research and analysis organization that focuses on public policy issues affecting low and moderate income households. Throughout most of its 8½ years, the Center has had a particular interest in analysis relating to poverty data and the government's poverty measures.

Poverty Measure in Need of Review

The federal government's official measure of poverty is in need of a comprehensive review. A number of issues need to be reexamined, including both issues related to where the poverty line should be set and issues related to what should be counted as income when poverty is measured.

Unfortunately, in recent years, most attention has focused on only one of these sets of issues -- what should be counted as income. Less attention has been paid to the equally important issues regarding the way in which the poverty line itself is established.

This is due in part to a division of responsibility between the Census Bureau and the Office of Management and Budget (OMB). The analysts at the Census Bureau

have viewed their role as dealing with various technical questions about what forms of compensation should be counted when poverty is measured and about how this compensation should be valued. By contrast, decisions about whether to revise the way in which the poverty line is set are regarded by the Census Bureau as being primarily *non*-technical in nature. These decisions are viewed as the province of OMB.

As a result, the Census Bureau concentrated during the 1980s on whether and how to count noncash benefits, along with questions related to whether the method used to adjust the poverty line for inflation in the 1970s and early 1980s was technically flawed. The Bureau has approached these as primarily technical matters that could be addressed in isolation from the question of how and at what level the poverty line should be set.

In last year's Census report on poverty and income, however, the Bureau took note of the fact that there are a number of other major issues, as well, surrounding the accuracy of the current poverty definition -- including the food-to-income ratio that underlies the current poverty line thresholds, the use of lower poverty lines for the elderly, whether to use pre-tax or after-tax income, and other matters.

I. Setting the Poverty Thresholds

As is well known, the current poverty line was established in the 1960s and is based on survey data from the mid-1950s showing that the average household spent about one-third of its budget on food. Mollie Orshansky, the originator of the current poverty line, took the cost of the Agriculture Department's least expensive food plan

(known as the "economy food plan") and multiplied it by three.[1] The result was the poverty line.

These calculations still form the basis for the poverty line today. Since the late 1960s, the poverty line has been updated each year by taking the previous year's poverty line and increasing it to reflect the annual inflation rate.

Serious questions must be raised about continued use of these poverty line thresholds. Today, as we enter the 1990s, the assumptions upon which the poverty line rests appear badly out of date.

As noted, the poverty line calculations were based on the assumption that the average family spent one-third of its income on food, an assumption that reflected expenditure patterns in the mid-1950s. Since then, other costs such as housing have risen more rapidly than food costs, however. As a result, food costs now make up a much smaller proportion of family expenditures than they did in the mid-1950s, while expenditures for items such as housing make up a larger share of family budgets.

The most recent expenditure data available, which are from the 1988 Consumer Expenditure Survey conducted for the Department of Labor, found that food costs make up only about 14 percent of the total expenses of the average family -- and about 18 percent of the budgets of the poorest fifth of families. These proportions are far below the one-third proportion used to construct the poverty line.

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[1]For small household sizes, the multiplication factor was slightly higher.

When the poverty line was set in the 1960s, it was recognized that these ratios would change over time. As early as 1968, the Social Security Administration, where Mollie Orshansky worked, proposed modifying the poverty line periodically to reflect these changing ratios. For example, in 1968, the Social Security Administration recommended using the food-to-total expenditures ratio from the 1965 Household Food Consumption Survey, rather than continuing to use the ratio from a 1955 survey.

Yet no such change has ever been made, and today's poverty line still rests upon the consumption patterns of the 1950s. Were one to take the current cost of the Agriculture Department's least costly food plan and multiply it by 5.5 (to reflect the fact that the average low income household now spends 18 percent of its budget on food), the poverty line would be far higher than it is.

Let me note that I am not suggesting this is the way to set the poverty line today. I simply wish to point out the extent to which the poverty line methodology still in use appears to be outdated.

The methodology in use also is somewhat arbitrary, in that it is based upon a minimum standard of adequacy only for food consumption and not upon minimum standards for other necessities, such as housing. Suppose that instead of using the Agriculture Department's lowest cost food plan as the standard for setting the poverty line, the "Fair Market Rents" established by HUD for use in the subsidized housing programs were used. Suppose that the poverty line for a given locality were set by multiplying the Fair Market Rent for an apartment appropriate for a given household size by a factor of 3 1/3 (reflecting the HUD standard that low income households

should not have to spend more than 30 percent of income for housing). Under such an approach, the poverty line would, in most parts of the country, be set considerably higher than it is today. Again, this example is used not to suggest that the poverty line actually be set in such a manner, but to illustrate the somewhat arbitrary nature of the current methodology.

The current poverty line thresholds are problematic for another reason as well. They fail to reflect changes over time in what society recognizes to be a minimally acceptable standard of living.

This point has been made well by Patricia Ruggles in her recent Urban Institute book, *Drawing the Line*. Ruggles notes that the commonly accepted definition of what is a necessity changes over time. "If we had been constructing a 'market basket' of necessary goods a century ago, for example, we would hardly have included electricity or indoor plumbing," she notes. "Few would argue that the poor can do without these amenities today." Ruggles observes that as recently as 1955 (the year from which the food consumption data on which the poverty line is based were drawn), many of the poor, especially in rural areas, had no plumbing. This situation is much less common today.

Furthermore, Ruggles points out that at the time the poverty line was established, few mothers of young children worked outside the home, and few families paid for child care. Today, by contrast, child care costs consume a substantial share of the budgets of many low income families. And because more families now have two

earners, work expenses such as commuting costs take a larger share of total income, as well.

More than 200 years ago, Adam Smith defined necessities as those commodities that "the custom of the country renders as indecent for creditable people, even of the lowest order, to be without." Over time, the "custom of the country" necessarily changes to reflect advances such as those just noted in electricity, plumbing, the need for child care, etc. To provide a realistic measure of hardship, the poverty definition needs to be updated periodically to reflect these changes.

A study issued by the staff of this Committee last October illustrates how unrealistic the current poverty thresholds can be for many families. The study notes that if a working mother with two children had earnings exactly at the poverty line, spent $50 a week on child care, spent no more than 30 percent of income for housing, and held its food costs to the amount of the Agriculture Department's least costly food plan, it would have just $30 a month left after taxes for all other needs, including clothing, medical care, items such as soap, etc.[2]

Moreover, the situation facing such a family would in all likelihood be even grimmer than this, because the family's housing costs would probably consume considerably more than 30 percent of its income. If the family spent only 30 percent of income for housing, it would be spending just $226 a month for rent and utilities -- a highly improbable situation in many cities unless the family lived in public or

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[2]The Committee's study reflects data for 1987.

subsidized housing. (Fewer than one-third of the poor do.) In most areas, the HUD Fair Market Rent for a two-bedroom apartment far exceeds $226 a month.

The assumption that the family could hold its food consumption to the cost of the Agriculture Department's lowest cost food plan may also be unrealistic. The Department's own surveys show that only about one-tenth of the households with food expenditures at this level obtain the Recommended Daily Allowances for the basic nutrients -- and that most low income households consequently spend more than this on food.

Income Eligibility Limits in Federal Means-Tested Programs

There is also some evidence that the American public -- or at least the policymakers it elects to represent it -- increasingly finds the current poverty line thresholds to be unrealistic. This is reflected in actions taken by the federal government over the past decade in setting income eligibility limits for various means-tested programs designed for those in need.

In the food stamp program, for example, families are eligible for benefits if they have incomes up to *130 percent* of the poverty line, a level the Reagan Administration proposed in 1981 for determining who is "truly needy." Similarly, school children are eligible for a free school lunch if their families have incomes up to 130 percent of the poverty line, another Reagan proposal that the Congress adopted.

In addition, under a law enacted last November, pregnant women and young children up to age six are eligible for Medicaid in all states if their incomes do not

exceed 133 percent of the poverty line. Similarly, households are eligible for Low Income Home Energy Assistance Program benefits if their incomes are below 110 to 150 percent of the poverty line, depending on the state in which they live.

The decisions to set these income limits at levels above the government's poverty line suggest that we, as a society, regard people who have incomes modestly above the poverty line as still being poor enough to need these forms of basic assistance. It is a bit odd to have households classified as "truly needy" by the most conservative Administration in half a century, while these same people are categorized as not being officially "poor."

Indeed, because the question of where to set the poverty line is in part a question of societal norms, rather than purely a scientific or technical matter, it may be relevant to know more about the public's view on this issue. To obtain such information, Dr. William O'Hare of the Population Reference Bureau, along with our Center, recently commissioned a question in a series of polls conducted by the Gallup organization, asking a nationally representative sample the amount of money a family in their community needs to avoid poverty. The results from the polls should be available later this summer.

A Lower Poverty Line for the Elderly

Another issue concerning the poverty thresholds centers on the poverty lines used for one- and two-person elderly households. Currently, the poverty lines used for the elderly are set at lower levels than the poverty lines used for the non-elderly. For

1988, the poverty line for a one-person elderly household was $5,674 -- nearly $500 below the poverty line for a one-person non-elderly household (which was $6,155). The poverty line for a two-person elderly household was $7,158, some $800 lower than the poverty line for non-elderly households of that size.

These differences in the elderly and non-elderly poverty lines may sound modest, but they have large impacts. Ruggles notes that in 1986, the official poverty rate for the elderly (based on use of the lower elderly poverty lines) was *below* the poverty rate for the U.S. population as a whole. Yet if the same poverty lines had been used for the elderly as are used for everyone else, the elderly poverty rate would have *exceeded* the poverty rate for the population as a whole. Moreover, the number of elderly classified as poor would have risen by nearly one-fourth.

Given this substantial effect, the use of lower poverty lines for the elderly in the government's poverty measure ought to rest on a reasonably strong foundation. However, it does not. To the contrary, many analysts believe the basis for use of lower poverty lines for elderly is very weak -- and that use of these lower poverty lines should be abandoned.

The use of lower poverty lines for the elderly stems entirely from the fact that under the Agriculture Department's least costly food plan, elderly people are assumed to need less food than younger people do. As a result, when the poverty line was originally established on the basis of this food plan, the elderly poverty lines came out lower than did the poverty lines for households in younger age brackets.

The problem with this approach is that it implicitly assumes that because food costs appear to be lower for the elderly than the non-elderly, other costs are necessarily lower as well. Yet while the elderly do appear to spend less of their budget on housing than the non-elderly, they spend substantially more on health care. One study has found that despite Medicare and Medicaid, the elderly spend *more than three times* as much of their disposable income on out-of-pocket health care costs as the non-elderly do. This is not reflected in the lower poverty lines used for the elderly.

Furthermore, the lower food costs assumed for elderly people in the USDA food plans reflect differences in food costs for people in good health. However, elderly people are more likely than their younger counterparts to have health problems requiring special diets, which may increase the cost of the food they purchase.

Thus, the methodology used to compute the lower poverty line for the elderly relies on the assumption that because food costs for healthy elderly people are lower than food costs for healthy younger people, the aggregate cost of all necessities must be lower for the elderly population as a whole, including elderly people who are not healthy. There is little basis for this assumption.

As Ruggles observes in *Drawing the Line*, "Without some convincing evidence for consistently lower needs for the elderly, therefore, it is difficult to justify the continuing use of a lower poverty standard for this population....The current set of thresholds for the elderly are indeed based almost entirely on conjecture..."

Adjusting the Poverty Line for Inflation?

Another issue relating to the matter of where to set the poverty line is the question of whether the poverty thresholds have been over-indexed in recent years. Those arguing this point observe that the Consumer Price Index overstated inflation from the late 1960s through the early 1980s (due to its treatment of homeownership costs during this period) and contend that the annual adjustments made to the poverty line during this period were excessive as a result.

It is generally accepted that the Consumer Price Index did overstate inflation during this period. But whether the poverty line should be retroactively adjusted (using the CPI-X) -- and set at a lower level as a result -- is another question.

As the Census Bureau noted last year in its report on poverty in 1988, the question of whether to adjust the poverty line retroactively, using an alternative inflation measure, is only one of a number of issues concerning the poverty measure. The inflation adjustment issue should not be singled out and addressed without the other issues being examined as well. An approach that sought to remedy a perceived overindexing of the poverty line, while ignoring both the outdated food-to-income ratio and the changes since the 1950s in the mix of items that are viewed as necessities in our society, would be unbalanced.

There also is some question as to whether retroactive poverty line adjustments are appropriate. Although the CPI-X seems a better measure of inflation for the general population over the 1967-1982 period than the CPI was, it is less clear that it was also superior as an overall measure of inflation *for poor people*. Bureau of Labor

Statistics data suggest that from 1967 to 1982, the overall costs of basic necessities -- such as food at home, shelter, fuel and utilities, and medical care -- may have risen more rapidly than did the overall CPI-X. Data from the Census Bureau also show that a larger proportion of the expenditures of low income households goes for these basic necessities than is assumed in the CPI-X. This is because the CPI-X is based on consumption patterns for the general population rather than on consumption among poor people, and the average household devotes a smaller share of its budget to necessities than poor households do.

This issue needs to be investigated further. If necessities did inflate at a faster rate than the overall CPI-X during this period, then there may be questions about the wisdom of switching retroactively to the CPI-X for the annual poverty line adjustments from the late 1960s through the early 1980s.

In addition, the CPI-X, which uses rental costs as a proxy for all housing costs and consequently gives substantial weight to rental costs, understated rental cost increases for the 20 year period from 1967 through 1987. This flaw has been recognized by the Bureau of Labor Statistics, which made an adjustment to correct this problem starting in January 1988. An historical adjustment in the CPI-X was not made, however. As a result, the CPI-X somewhat understates housing cost increases over this 20 year period.

Economy-of-Scale Factors

Still another matter warranting examination is the methodology used to adjust the poverty line for households of different sizes. The methodology for this aspect of the poverty line, as well, is based on the food consumption patterns from the 1950s. A number of analysts have noted that there are some strange quirks in the economy-of-scale adjustments, which are difficult to justify.

A review of the poverty thresholds thus should include an attempt to refine and update the household size adjustments now in use.

II. What to Count as Income and How to Count It?

If one major set of issues revolves around the poverty thresholds, the other principal set of issues centers on what should be counted as income. The most significant issues here are how to treat non-cash benefits and whether to base poverty measurement on pre-tax or after-tax income.

Many analysts believe that non-cash benefits that are relatively fungible should generally be counted. The best example of such a benefit is food stamps. The value of a household's food stamp benefits is easily determined, and the benefits clearly increase the resources a household has available to purchase necessities.

In this vein, it may make sense to count various food and housing benefits as income, although there are questions about how to determine the value of certain of these benefits. (For example, the method the Census Bureau currently uses to value free school lunches probably overstates the income value of these meals to a poor

household, because it includes the salary, overhead, and other costs a school incurs in operating a school lunch program. The result is that a lunch received through the school lunch program is given an income value nearly twice as great as the value given to a lunch made with food purchased with food stamps. I believe this is too large a difference and that an adjustment in the value of the free school lunch should be made.)

Far more difficult is the question of whether to count medical insurance benefits as income. Unlike food and housing benefits, medical coverage is not used on a regular weekly or monthly basis to meet ongoing household consumption needs. Moreover, because a small number of households receive very expensive medical treatment, the average cost of insurance can be extremely high in comparison to the other expenses of a low income household -- well above what a low income household would likely be willing to pay for insurance if it received an equivalent amount of cash.

The problems of trying to devise a reasonable way to value medical benefits have dogged poverty analysts for some time. For example, during the 1980s the Census Bureau tested a method using the "insurance value" of Medicare and Medicaid. Under this approach the Bureau took the costs of Medicare and Medicaid for various categories of households in each state and divided these costs by the number of enrollees in each category in each state. The resulting amounts were then counted as income for households in these categories. When this method was used, the Bureau found that in the average state, an elderly couple receiving Medicare and Medicaid

would be considered to be above the poverty line even if the couple had no income whatsoever to meet the costs of any other necessities.

The method the Census Bureau is currently testing for counting Medicare and Medicaid benefits is somewhat better, but still has very serious shortcomings. Under the newer method, the Census Bureau computes an amount for a household's basic food and housing costs (using the USDA food plan and the HUD Fair Market Rents) and subtracts this amount from the household's income. If the "insurance value" of the household's Medicaid benefits equals or exceeds the household's remaining income (after the designated amounts for food and housing are subtracted), then the income value of the medical benefits is said to equal the amount of the household's remaining income.

A major problem with this approach is that it is tantamount to assuming that all household income not needed for food or housing is available for medical insurance costs. This approach fails to take into account any other necessary costs, such as clothing, transportation, or basic non-food items such as soap, toothpaste, and paper products.

The nature of health insurance benefits, and the problems inherent in trying to place an income value on these benefits, has led many analysts to recommend that such benefits *not* be counted as income when poverty is measured. This is a view I share. Counting medical benefits as income is likely to add distortion to the poverty

measure and make the measure a less accurate indicator of whether a household is experiencing hardship.[3]

While analysts disagree on the question of whether to count medical benefits, there is one point on which most analysts concur: *if* medical benefits are to be counted as income, then the poverty thresholds must be recalculated and raised. As the Census Bureau noted in a report on its December 1985 conference of poverty analysts (which the Bureau convened to discuss the counting of non-cash benefits): "Most participants at the noncash conference agreed that poverty thresholds would have to be changed if the value of medical care were to be included in the income definition."

Earlier government studies on the poverty definition -- including the 1976 study *The Measure of Poverty* and the 1973 final report of the federal interagency Subcommittee on Updating the Poverty Threshold -- also noted that if non-cash benefits were to be counted as income, the poverty threshold would need to be adjusted upward.

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[3]As one leading analyst has noted: "The medical reimbursement programs are more difficult, but my earnest suggestion is that they be ignored [in measuring poverty] whether they are provided by public programs such as Medicare and Medicaid or by employers as a part of compensation. It is consistent both with the past practice and the abstract concept to regard most medical reimbursements as coverage for *extra*-ordinary needs. It places medical 'security' in the same category as public education as having important external effects along with private benefits. We have managed to understand poverty fairly well without accounting for educational benefits; we can do the same with medical benefits. The alternative in both cases is to make some very dubious calculation of the 'value' of these eminently nonfungible resources to add to the fungible ones. To be consistent the calculations should be made for all persons -- not just the poor -- and in the end one has a measure that is very remote from anyone's direct experience." Harold W. Watts, "Have Our Measures of Poverty Become Poorer?," *Focus*, Institute for Research on Poverty, University of Wisconsin-Madison, Summer 1986.

Pre-Tax Vs. After-Tax Income

Also important is the question of whether to compare a household's *before*-tax income or its *after*-tax income to the poverty line. Most analysts, including most of those at the December 1985 conference, favor using after-tax income.

It is particularly hard to defend continued use of before-tax income if non-cash benefits such as food stamps and housing subsidies are to be counted. If food stamps are counted -- on the grounds they increase resources available for household consumption -- then it must be recognized that taxes withheld from paychecks represent funds that are never available for household consumption.

Moreover, the poverty line was originally set based on data showing how families spent their after-tax income. If the poverty line had been based on pre-tax income, it presumably would have been set higher than it is (because the cost of the USDA food plan would have been multiplied by a factor greater than three). Comparing a family's *pre*-tax income to a poverty line based on *after*-tax expenses is tantamount to assuming that money withheld from paychecks for income and payroll taxes is available for food, shelter, and other household expenses.

Counting Non-Cash Benefits and Using After-Tax Income: The Net Effect

There has been considerable misunderstanding in recent years about the effects of counting non-cash benefits as income. An impression has been created in some quarters that because the official poverty measure does not include non-cash benefits,

an improved poverty measure would substantially lower the number of people considered to be poor.

In fact, counting food and housing benefits as income would have a rather modest effect in lowering the poverty rate – and much of this effect would be offset if after-tax rather than pre-tax income were used.

The only poverty measures that produce large reductions in the poverty rate when non-cash benefits are counted are the measures that count medical benefits as income without raising the poverty threshold. As noted, most analysts consider such measures invalid. The counting of medical benefits should be undertaken, if at all, only in conjunction with a recomputation of the poverty line.

The assertions that an improved poverty measure would necessarily lower the poverty rate also fail to take into account the issues raised in the first part of this testimony concerning the need to reexamine the poverty line thresholds

Conclusion

A thorough and comprehensive examination of the poverty measure is needed. Such a review needs to include an examination both of the poverty line thresholds and of the issues related to what should be counted as income.

In recent years, the executive branch has acted at times as though questions relating to how the poverty line is set are not worthy of much scrutiny. If serious questions can be raised about an official poverty measure that ignores non-cash benefits, however, equally serious questions can be raised about poverty thresholds that

rely primarily on food consumption patterns from 35 years ago that no longer hold true. Both sets of questions need to be included in a serious, dispassionate, and non-political review of these important issues.

Representative HAMILTON. Ms. Scholl, please proceed.

STATEMENT OF KATHLEEN K. SCHOLL, SENIOR COORDINATOR, ECONOMIC TEAM, PUBLIC POLICY INSTITUTE, AMERICAN ASSOCIATION OF RETIRED PERSONS [AARP]

Ms. SCHOLL. I am the senior coordinator of the economic team of the Public Policy Institute of the American Association of Retired Persons. I studied economics at Purdue University from which I received a doctorate degree in family economics.

AARP appreciates the opportunity to give its views on measuring poverty, an issue with important implications for those whose economic survival may hinge on how the Government defines poverty. The association is concerned that today's poverty threshold inaccurately measures the number of persons living in poverty. This results in many needy persons being excluded from low-income assistance programs. Improper measures of poverty also paints a false picture of the extent to which poverty persists. AARP has numerous concerns regarding how the poverty level is measured. However, we are limiting our comments to those issues covered in today's hearing.

The association recommends the following to the committee for its consideration:

No. 1, eliminate the lower poverty threshold for aged persons and families.

No. 2, do not use the CPI-U-X1 to update the poverty thresholds prior to 1983.

And, No. 3, do not incorporate noncash benefits and inkind income in the determination of poverty status.

AARP's reasons for supporting the elimination of the aged differential and the poverty threshold are explained in detail in our prepared statement.

However, in the interest of time, I will highlight only a few of them. First, since the poverty level denotes the amount at which a family or an individual is supposed to be able to support itself without additional assistance, the age differential suggests that older households should be able to live on less. This simply is not the case. The poverty threshold for an elderly couple does not mesh with its living expenses.

Starting with the threshold amount of $596 per month, we first subtract $245 for food. Next consider that the older households average $167 in health care expenses, and spend $133 on utilities. This leaves only $51 to cover other expenses such as housing, clothing, and transportation. Elderly low-income couples would be better able to sustain themselves on a monthly income of $663, the threshold for young couples. At this level of income an additional $67 could make a considerable difference in their ability to maintain a more reasonable standard of living.

Second, AARP believes that the food plan costs on which these differentials are built are inapplicable to today's elderly and indeed may have not been relevant in the past. For instance, the highest age break for the U.S. recommended daily allowances is currently 51 years, not 65 years of age. And external factors limit the ability of an elderly couple or individual to use the food plan. These in-

clude limited availability and accessibility of food plan items and the need to limit food expenditures in order to counteract inflation in other spending categories, most notably health care.

Futhermore, as indicated in our prepared statement, age groups differ in their aftertax expenditures. One could just as well justify separate thresholds for families headed by persons under the age of 25. If the definition of poverty was age neutral, the elderly poverty rate would increase by 20 percent or 700,000 persons. This is because so many older persons are clustered just above the official poverty line. Those most affected by a redefinition are elderly women living alone, widows, and the very old.

Next, I would like to address the proposal to use the CPI-U-X1 to adjust the pre-1983 thresholds. AARP believes that this should not be done because No. 1, the official definition of poverty is already too low and a further decline would make it even more difficult for the poor to sustain themselves.

No. 2, the CPI-U-X1 index numbers for the years prior to 1983 are experimental and do not represent the accuracy of today's measure.

And No. 3, there is no clear precedent for making retroactive changes to the poverty threshold when a different measure of inflation is used. If the CPI-U-X1 were used to measure poverty, 3½ million persons would no longer be classified as poor and the overall poverty rate would be 1½ percentage points lower.

Those most likely to be removed from poverty would be children under 15 and persons 55 and older. The proposed change would not only affect the count of persons in poverty, but would also disqualify many poor persons from programs such as Medicaid. Nearly one-third of these persons live by themselves and two-thirds of these are women who live alone.

AARP also opposes the evaluation of inkind income and noncash benefits in the determination of the number of persons in poverty. In December 1988, the Bureau of the Census made major improvements in how noncash benefits are valued, but the Bureau acknowledges that six measurement issues are unresolved. These and other issues must be solved before such changes can be considered for implementation. Nonetheless, incorporating dollar estimates for certain types of assistance such as Medicare, Medicaid, and subsidized housing assumes that these benefits are transferable within a family budget and therefore money will be freed up to spend on other items.

However, the determination of the value of these benefits is largely a paper calculation. The reality is that these benefits do not make a person less poor.

The association remains concerned about the simultaneous release of poverty statistics using inkind valuations with the official government count of persons in poverty. Including the inkind estimate confuses the public. If inkind valuations including employer provided health insurance and government transfers were incorporated into the official measure of poverty for all persons, the rate of poverty would decline from 13.1 percent to 10.5 percent. About one-fifth of those officially classified in poverty would suddenly be deemed no longer poor. Those 65 or older and black persons are

most likely to be reclassified as nonpoor. One in four would be affected.

Mr. Chairman, a standard that truly reflects economic hardship in the United States must be used to identify those who simply cannot live on their current income and need financial assistance. Those not officially poor are not slipping through holes in the safety net because they have no safety net at which to grasp. Until these persons are properly counted as being in poverty, low-income assistance programs will continue to exclude them.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Scholl follows:]

PREPARED STATEMENT OF KATHLEEN K. SCHOLL

The American Association of Retired Persons (AARP) appreciates the opportunity to present its views on the definition of poverty. We commend the committee for its interest in a largely overlooked, but significant issue. We hope this hearing will lead to congressional or regulatory action that will better identify those living in poverty conditions.

AARP is concerned that today's poverty thresholds inaccurately measure the number of persons living in poverty, thereby excluding needy persons from low-income assistance programs.

AARP specifically recommends the following:

- Eliminate the lower poverty thresholds for aged individuals and two-persons families headed by a person 65 years and older;
- Do not use the CPI-U-X1 to update the poverty thresholds prior to its official adoption in 1983; and,
- Do not incorporate the values attributable to in-kind income and noncash benefits into the determination of poverty status.

This statement addresses only those measurement problems under discussion at today's hearing. AARP's concerns, however, are not limited to these areas and the Association believes that additional problems need to be addressed in the future.

I. HISTORICAL DEVELOPMENT OF POVERTY THRESHOLDS

Mollie Orshansky's concern about children living in poverty conditions and yet not appearing in poverty statistics led her to construct "crude indexes of poverty". Prior to her research, persons living in families of two or more persons were classified as living in poverty if the family's annual income was less than $3,000 ($1,500 for an individual). Family size was not accounted for in the flat dollar cutoff amounts. Therefore many poor families with several children were not included among those in poverty; whereas many aged couples were classified as poor. In the mid 1960s, the determination of who was in poverty was paramount to the development of programs to wage war on poverty. "Clearly, a profile of the poor that includes large numbers of... aged couples...[would] raise different questions and evoke different answers than when the group is characterized by relatively more young nonfarm families--many of them with several children."[1]

Orshansky's thresholds were based upon the consumption of food within the family. Having worked at the U.S. Department of

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[1] Mollie Orshansky, "Counting the Poor: Another Look at the Poverty Profile", Social Security Bulletin 28 (January 1965): 13.

Agriculture (USDA) she had thorough knowledge of the Department's efforts to calculate the cost of food needed by individuals and families. The USDA food plans incorporated the criteria of nutrition adequacy as set forth by the National Research Council and the actual consumption patterns of families at different spending levels. These food plans were arranged in 19 age-sex classes and were to be adjusted for family size and composition. Using the proportion of the family's after tax income spent on food consumption in 1955 (an average of 33 percent for families of two or more persons), Orshansky used the inverse of the food to income relationship and essentially multiplied the lowest cost plan (Economy Food Plan) by three.

An exception was made however for one- and two-person families; the multiplier was larger for two person families and the one-person families' threshold was determined by an equivalence scale approach. For two-person families the inverse of 27 percent was used as the multiplier since that was the proportion spent on food by two-person families in the 1955 food consumption survey. Since the food consumption data were "hard to interpret because of the heavy representation of aged individuals",[2] a different survey and relationship were used for the one-person thresholds. Instead, the relationship between one- and two-persons families as found in the 1960-61 Consumer Expenditure Survey was used. One-person thresholds were set at 80 percent of the couple's requirement. This was done on the premise that at these low income levels, it would be "more difficult for one person to cut expenses, such as housing and utilities, below the minimum for a couple".[3] So discussions about the eating behavior of individuals who live by themselves is moot in relation to how their poverty thresholds were developed.

A different set of thresholds was established for farm families on the premise that in 1955 they produced about 40 percent of the food they consumed. Therefore a matrix of poverty thresholds was developed at 60 percent of the nonfarm thresholds.

Although the justification was not directly described in the documentation at the time of the development of the poverty thresholds, separate threshold matrices were developed according to the age and sex of the head of household. Generally the thresholds were lower if the head of the family was female. Also, separate thresholds were established for one- and two-person families by age of the head of the family. However, only two age categories were used: under 65 years old and 65 years old and over.

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[2] Ibid., 9.

[3] Ibid.

Contrary to today's rhetoric about the reasons for the lower thresholds, women and older persons did not eat less food in 1955. In reality the costs for the food plans in comparison to young and middle-aged men were lower for all women and lower for aged men. Applying the multipliers to these less costly food plans resulted in lower thresholds. Yet, one must remember that the one-person thresholds are not based upon the food consumption of individuals living alone, but upon a percentage of the two-person thresholds.

Orshanksy's measure for unrelated individuals was very close to the flat dollar cutoff point previously used for individuals ($1,540 compared with $1,500) and the new threshold for four-person families was very close to the flat dollar cutoff for families ($3,130 compared with $3,000). By changing the poverty threshold reference from flat dollar amounts, Orshansky was able to show that families with fewer than four persons needed less and families larger than four needed more than the previously used $3,000 amount. Also, the new measure resulted in a very similar count of poor persons in 1963 (34.6 million compared with 33.4 million). But the composition of the poor changed significantly. Orshanksy easily showed that an additional 4 million children were in fact living in poverty. The composition of the poor changed from 32 percent under the age of 18 years to 43 percent. The proportion of poor families with aged heads fell from 35 percent with the flat dollar amounts to 21 percent with the new thresholds. And the proportion of poverty families who lived on farms fell from 15 percent to 10 percent.

II. PROBLEMS WITH THE THRESHOLDS, IMPLEMENTED CHANGES AND SUGGESTED CORRECTIONS

Numerous problems have been identified with the poverty thresholds and some changes have been made in them. But there are still many areas where problems exist.

A. PROBLEMS WITH DIFFERENTIALS IN THE POVERTY MATRIX

In total, 124 distinct income cutoffs comprised the poverty index. Adjustments were made for family size, age and sex of family head, number of children under 18 years old, and farm-nonfarm residence.

1. Review of Previous Action

Before the thresholds were adopted by the Bureau of the Budget in 1969, changes were made by the Office of Economic Opportunity. The magnitude of the farm differential was questioned and the proportion was raised from 60 to 70 percent. In 1969 the differential was raised again to 85 percent. Still, the farm community felt that the differential was unjustified and in 1981, the separate farm thresholds were eliminated.

Also eliminated in 1981 was the distinction in the thresholds by sex of the head of the family. At the request of the U.S. Department of Justice a Federal Interagency Committee on Income and Wealth Distribution Statistics was convened to study sex discrimination in the thresholds. Upon this committee's request the Statistical Policy Coordination Committee eliminated the the distinction between male- and female-headed families.

Although the interagency committee recommended the elimination of both sex discrimination and the farm differential in the poverty measures, it failed to address age discrimination in the thresholds. One wonders why the Justice Department did not recognize this in 1979 when it requested that the thresholds be changed to eliminate gender distinctions.

2. Need to Eliminate the Aged Head of Family Differentials

AARP strongly supports the elimination of the separate poverty thresholds for persons 65 and older who live by themselves and for couples whose head of household is 65 and older. The reasons for their elimination are numerous.

a. Orshanksy chose to use the food plan costs because they were well established and could be used to indicate how well the family was meeting its nutritional needs. AARP, however, believes that simply looking at food costs is too limited. If Orshansky had access to a broader concept of health status of individuals, as perhaps measured by a hypothetical "medical cost plans", rather that food cost plans, the derived thresholds would have identified those whose health was in jeopardy because they were unable to purchase adequate medical care -- poor children, elderly, and disabled and unhealthy individuals of all ages.

b. The poverty level itself denotes the amount at which a family should be able to support itself without additional assistance. In essence the lower thresholds for the aged population means that society believes that the older population can and should live on less income than that required for younger families. However, the basic premise that there is a relationship between the amount spent by older persons on food and other items has not been substantiated.

   However, those classified as poor elderly simply cannot sustain their lives with such low levels of income. For instance, an elderly couple whose monthly income was between $596 and $663 (the difference caused by age discrimination in the two-person thresholds) was not in poverty in 1988. The additional $67 per month is really needed to sustain the lives of an elderly couple.

A study by the Center for Agricultural and Rural Development at Iowa State University for AARP shows that an elderly low-income couple in 1988 spent $245 per month for food. The Consumer Expenditure Survey data for 1988 indicate that even with government health programs (Medicare and Medicaid) paying for a large portion of their health care, elderly couples still spent $167 per month on out-of-pocket health care expenses.[4] These data also indicate that older households averaged $133 per month on utilities. Just subtracting these three categories from that allocated by the aged couple's threshold, one can easily see that the remaining $51 has to stretch pretty far to cover the couple's expenses for housing, clothing, and transportation, to name a few. Clearly, one can see how these couples are not eating properly, heating or cooling their homes adequately (elderly persons are extremely vulnerable to inadequate heat and cold), or getting proper medical attention. Even with the inherent problems in the nonaged thresholds, the monthly amount of $663 (threshold for young couples) is a better measure to identify older Americans who need special help.

c. The basis for which separate lower food plan costs for those 65 and older is no longer valid since the highest age break for separate U.S. Recommended Daily Allowances (RDAs) is the age of 51 years. In the latest version of the RDAs issued in October 1989, the National Research Council considered dividing healthy older people into two groups, since increasing age may alter nutritional requirements due to changes in lean body mass, physical activity, and intestinal absorption. But the lack of information about the oldest age groups caused the Council to continue the two RDAs for adult age groups: 25 to 50 years, and 51 and older.

   Even if research found that older persons need lower levels of RDAs in some nutrients, food costs may be higher to meet the RDAs because of interactions with medications, poor absorption, and other factors related to age.

d. It is impossible to use the Orshansky methodology to construct revised separate poverty thresholds for heads of households 65 and older. The USDA no longer calculates the cost of the Economy Food Plan. Instead the Thrifty Food Plan is the lowest cost food plan. However, the Thrifty Food Plan does not give costs for individuals 65 and older. Even if it did give these costs, it would be inappropriate to use the 1983 Thrifty Food Plan because USDA artificially lowered the costs of the 1983 plan by 24 percent to equal the costs of the 1975 Thrifty Food Plan. The plan no longer reflects the food

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[4] Note that this amount excludes the institutionalized and therefore excludes long-term care costs. If the institutionalized were included the average cost would exceed $300 per month.

consumption behavior of poor families -- a basic premise on which the thresholds were based.

e. Implicit in the food plans is the ability to select, prepare and consume the foods that compose the plan. It is not clear that poor older Americans have this ability. Numerous studies have detailed the inability of the poor to get transportation to the food stores that offer the food at the assumed prices, to purchase food in the large quantities assumed in the plan, and to understand the food plan enough to properly use it. Generally, at these low cost levels the kinds and qualities of the food are restricted, and more skill in marketing and food preparation is required. For instance, a male over the age of 50 is expected to be able to prepare and consume 2.08 pounds of flour, cornmeal, rice and pasta each week--this is in addition to 1.54 pounds of bread. AARP believes that the expectation for an elderly person to handle the required volume of grains and to prepare them in a desirable fashion is unreasonable.

f. The multiplier used to derive the thresholds is seriously out-of-date. All experts agree that the proportion of income spent on food has declined since 1955. As indicated in Table 1, food continues to take a declining share of after tax income. This indicates that an updated version of the poverty thresholds would have a higher multiplier. Using the 1965 Food Consumption Survey and the 1975 Thrifty Food Plan, Fendler and Orshansky[5] calculated that the multiplier should be the inverse of 29 percent instead of 33 percent. Most recently Ruggles[6] estimates that today the multiplier should be the inverse of 17 percent (approximately a multiplier of five, rather than three).

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[5] Carol Fendler, and Mollie Orshansky, "Improving the Poverty Definition" in 1979 Proceedings of the Social Statistics Section by the American Statistical Association (Washington, DC: American Statistical Association, 1979), 643.

[6] Patricia Ruggles, Drawing the Line: Alternative Poverty Measures and Their Implications for Public Policy (Washington, DC: The Urban Institute Press, 1990), 182.

Table 1. Percent of after tax income of all urban consumer units and those 65 and older, Consumer Expenditure Surveys, 1988, 1982-83, 1972-73, and 1960-61.

Expenditure categories	1988		1982-1983		1972-1973		1960-1961	
	All CU's	65+	All CU's	65+	All CU's	65+	All CU's	65+
Food	16.3%	15.3%	15.5%	18.0%	16.5%	19.7%	22.2%	23.0%
Alcoholic beverages	1.0%	0.8%	1.4%	1.0%	0.8%	0.6%	1.5%	1.1%
Housing	30.9%	33.0%	28.7%	32.4%	24.8%	28.1%	26.9%	29.6%
Apparel and services	5.7%	4.5%	5.1%	4.0%	6.0%	4.6%	9.4%	6.6%
Transportation	19.5%	18.1%	18.4%	15.5%	17.2%	13.7%	13.4%	10.2%
Health care	5.0%	12.5%	4.1%	9.6%	4.3%	7.5%	6.0%	8.9%
Entertainment	5.1%	3.9%	4.3%	3.1%	3.7%	2.4%	3.7%	2.2%
Personal care	1.3%	1.4%	0.9%	1.3%	1.0%	1.4%	2.6%	2.4%
Reading	0.6%	0.8%	0.6%	0.8%	0.5%	0.5%	0.8%	1.0%
Education	1.3%	0.4%	1.4%	0.4%	1.1%	0.4%	1.0%	0.3%
Tobacco and smoking supplies	0.9%	0.8%	1.0%	0.9%	1.3%	1.0%	1.6%	1.1%
Miscellaneous	2.2%	2.5%	1.3%	1.6%	0.9%	0.5%	2.0%	2.2%
Cash contributions	2.7%	4.6%	2.9%	5.2%	3.5%	7.5%	5.1%	7.9%
Personal insurance and pensions	8.6%	4.3%	8.1%	3.1%	7.7%	3.2%	5.5%	3.3%
Not expended	1.0%	-2.9%	6.4%	3.1%	10.6%	8.9%	-1.9%	0.0%
Total percentage	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income after taxes	$26,149	$16,816	$20,182	$12,739	$10,174	$5,898	$5,906	$3,654

Note: Data are not directly comparable between the surveys. Adjustments, however, have been made to the 1972-73 data to make them comparable to 1988 data.

Source: Consumer Expenditure Surveys, Bureau of Labor Statistics, calculated from published and unpublished data.

g. External factors affect the consumption patterns -- and the survey data -- of elderly persons differently than they do other age groups. As a result, it is extremely difficult to justify lower thresholds for those 65 and older.

One of the most important external factors is that older persons have lower average annual incomes. Therefore, starting with lower average income levels, the elderly generally consume less and therefore register lower than average levels of need. Older persons may spend less because they have fewer needs, or because they have fewer available resources.

Factors that affect food purchases of the poor elderly, probably affected the food consumption data such that it should not have been used to set poverty thresholds. Older Americans are at nutritional risk because many experience reduced appetite and sense of taste. Others find that the use of medications has an impact on eating patterns. Combined

with decreased mobility, one doubts that food is the correct basis for poverty thresholds of older persons.

Although they spend below average dollar amounts in some categories such as food, their expenditures on other necessities are not necessarily less in the same proportion for other areas of need. For example in Table 1 one notes the declining share of after tax income spent on food over the years. Health care, an equally important expenditure, however, has been steadily increasing (see Chart 1).

Another extremely important factor in determining if the elderly truly need less is the relationship of price inflation for one category, such as food, as compared with other items. For example, skyrocketing prices of health care may have forced the poor elderly to change their food shopping and to shift what would have been allocated to food to purchases of health care.

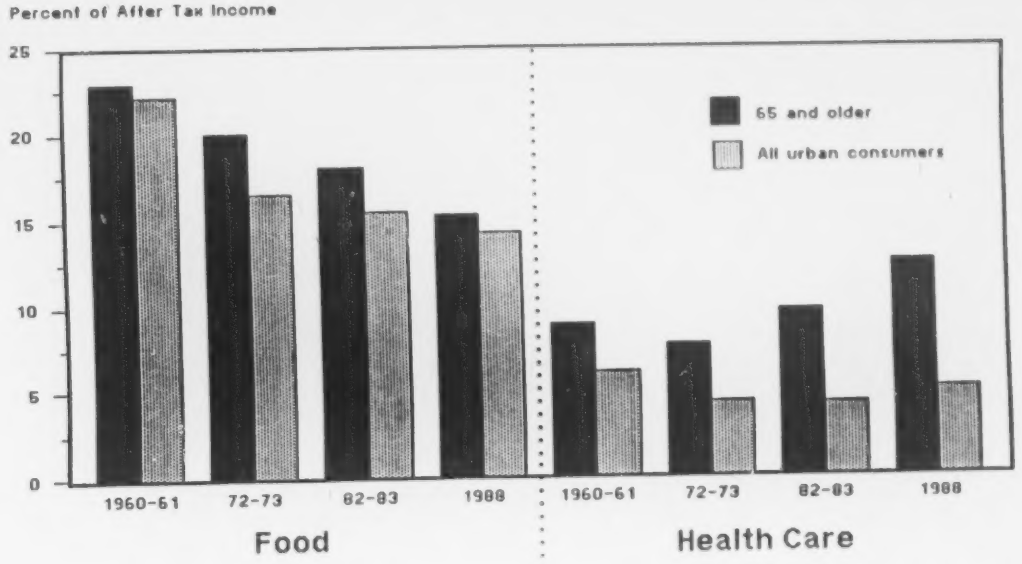
h. As indicated in Table 2, all ages differ in their expenditures of after tax income. One could just as well justify separate thresholds for families headed by persons under the age of 25.

Table 2. Percent of after tax income by expenditure categories and age of reference person, 1988.

Expenditure categories	All CU's	Under 25	25-34	35-44	45-54	55-64	65-74	75 and over
Food	14.3%	17.8%	14.1%	14.0%	13.4%	14.5%	15.3%	15.0%
Alcoholic beverages	1.0%	2.3%	1.4%	0.8%	0.9%	0.9%	0.8%	0.7%
Housing	30.9%	34.3%	32.7%	31.5%	26.9%	28.4%	31.4%	36.3%
Apparel and services	5.7%	7.5%	5.8%	6.1%	5.9%	5.0%	5.0%	3.5%
Transportation	19.5%	28.3%	21.1%	19.2%	18.4%	16.8%	20.2%	13.7%
Health care	5.0%	3.8%	3.0%	3.8%	3.5%	5.6%	10.2%	17.3%
Entertainment	5.1%	7.0%	5.4%	5.9%	4.5%	4.2%	4.5%	2.7%
Personal care	1.3%	1.5%	1.2%	1.3%	1.2%	1.2%	1.4%	1.3%
Reading	0.6%	0.6%	0.5%	0.6%	0.5%	0.6%	0.8%	0.8%
Education	1.3%	4.7%	1.0%	1.4%	1.9%	0.9%	0.4%	0.2%
Tobacco and smoking supplies	0.9%	1.3%	0.9%	0.8%	0.9%	1.0%	0.9%	0.7%
Miscellaneous	2.2%	1.6%	2.0%	2.4%	2.2%	2.2%	2.6%	2.3%
Cash contributions	2.7%	0.9%	1.4%	2.4%	2.7%	3.7%	3.8%	6.1%
Personal insurance and pensions	8.6%	7.0%	8.8%	9.5%	9.5%	9.5%	4.9%	2.9%
Not expended	1.0%	-18.5%	0.6%	0.4%	7.8%	5.7%	-2.2%	-3.5%
Total percentage	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income after taxes	$26,149	$13,819	$25,928	$33,227	$35,999	$27,327	$19,683	$12,886

Source: Bureau of Labor Statistics.

Percent of After Tax Income Spent on Food and Health Care All Urban Consumers and Those 65 and Older



Prepared by AARP Public Policy Institute

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Chart 1

i. The sheer arbitrariness of the current system is amply demonstrated by the fact that one can simply move out of poverty by aging from 64 to 65 years of age, with no improvement in income.

B. PROBLEMS WITH ANNUAL ADJUSTMENTS TO THE THRESHOLDS

Annual adjustments to the thresholds are necessary if a comparison is made of the number of persons in poverty over time. Such comparisons measure the success of anti-poverty programs. The current discussion centers on the use of a specific CPI to adjust all thresholds--including those predating its official use.

1. Review of Previous Action

From 1963 to 1969 the December-to-December changes in the price of the economy food plans were used to adjust for inflation. Since food prices substantially lagged behind the price increases experienced by other commodities during the late 1960s, a decision was made to annually update the thresholds by the average price changes for all items in the Consumer Price Index (CPI).

Over the years as improvements and changes were made to the CPI, these changes were incorporated into the annual updates of the poverty thresholds. For instance, in 1978 annual updates began using the CPI-U (the Consumer Price Index for all Urban Consumers) when it was adopted as the official CPI. Again, in 1983 when the official CPI-U was adjusted for rental equivalence of owner-occupied housing (also know as CPI-U-X1), the annual adjustments to the poverty thresholds were made (and continue to be made) by using this particular CPI-U.

2. Proposal to Use CPI-U-X1 to Update All Thresholds

A few critics have focussed on the fact that the pre-1983 thresholds have not been updated with the CPI-U-X1. They contend that the investment aspects of homeownership as incorporated in the CPI prior to 1983, should be removed from the official poverty thresholds. When the CPI-U-X1 is used to annually update the thresholds, the resulting thresholds are only 91 percent of the official thresholds. As shown in Table 3, the differences for one- and two-person thresholds (weighted averages) are substantial.

Table 3. Comparison of official poverty thresholds with those using the CPI-U-X1, 1989.

Family size	Offical thresholds	Thresholds using CPI-U-X1
One person	$6,314	$5,742
Two persons	$8,075	$7,344

AARP does not support the use of the CPI-U-X1 to update pre-1983 poverty thresholds for the following reasons.

a. The official poverty thresholds are already too low and lowering them even further would prescribe a living standard that is clearly substandard. Instead of the designation of $596 a month as adequate income on which to live in 1988, the elderly poor couple whose income is greater than $542 would be identified as not having a need for assistance.

b. The CPI-U-X1 index numbers for years prior to 1983 are experimental and do not represent the accuracy of today's measure. The data that are used to determine rental equivalency simply were not collected prior to implementation in 1983. For research purposes the Bureau of Labor Statistics created an experimental series of the CPI-U-X1 based on the new methodology for the 1967-1982 period. Therefore the index numbers themselves are not a reliable measure of what CPI-U-X1 would have been in those years.

c. When the decision was made to use the CPI-U in 1978 the previous thresholds were not changed to reflect this different index. There is precedent not to make retroactive changes to the thresholds when a different measure of inflation is used.

C. PROBLEMS WITH VALUATION OF IN-KIND INCOME AND NONCASH BENEFITS

Another way to affect the count of persons in poverty is to alter the definition of income. In the early 1980s the U.S. Bureau of the Census (Census) began publishing a series of reports of poverty estimates that include the value of in-kind income or noncash benefits, such as food stamps and Medicare, as income. In adding these estimates to money income the assumption is that the dollar value of these benefits is transferable within the family budget and therefore frees up money that would be otherwise spent in these categories. For instance, an older poor man living in New Jersey has $1,363 (or a proportion of that amount) added to his income for poverty determination. Such an assignment is made even if he did not have Medicaid claims. Another problem arises

in that the health care estimate values are influenced by unrestrained inflation in medical care. Therefore, the assignment of values which are experiencing a different price trend will drastically alter the count of persons over time, especially for an area where inflation far exceeds that of inflation in general.

In most instances these procedures remove poor older persons from poverty. These methodologies, however, are in fact paper calculations and do not make a person less poor. Since "spendable income" is added to one's money income, of course, the result is fewer persons in poverty.

In December 1988, the Census issued a new report series that provides 12 different measures of money and in-kind income. Although major improvement were made in how the noncash benefits were valued, Census still lists six major measurement issues that need to be resolved.

Until these issues, as well as others not identified by Census, are resolved, AARP does not support the adoption of any of these income concepts into the determination of poverty status.

In October 1989 AARP was very disappointed that estimates of poverty that include in-kind income and noncash benefits continued to be published with the official counts of persons in poverty. Including these estimates with those using the CPI-U-X1 just further confuses the media and the public as to the number of persons living in poverty. In this single report one can find poverty rates for all Americans that range from 19.8 percent to 10.5 percent.

III. WHO WOULD BE AFFECTED BY CHANGES?

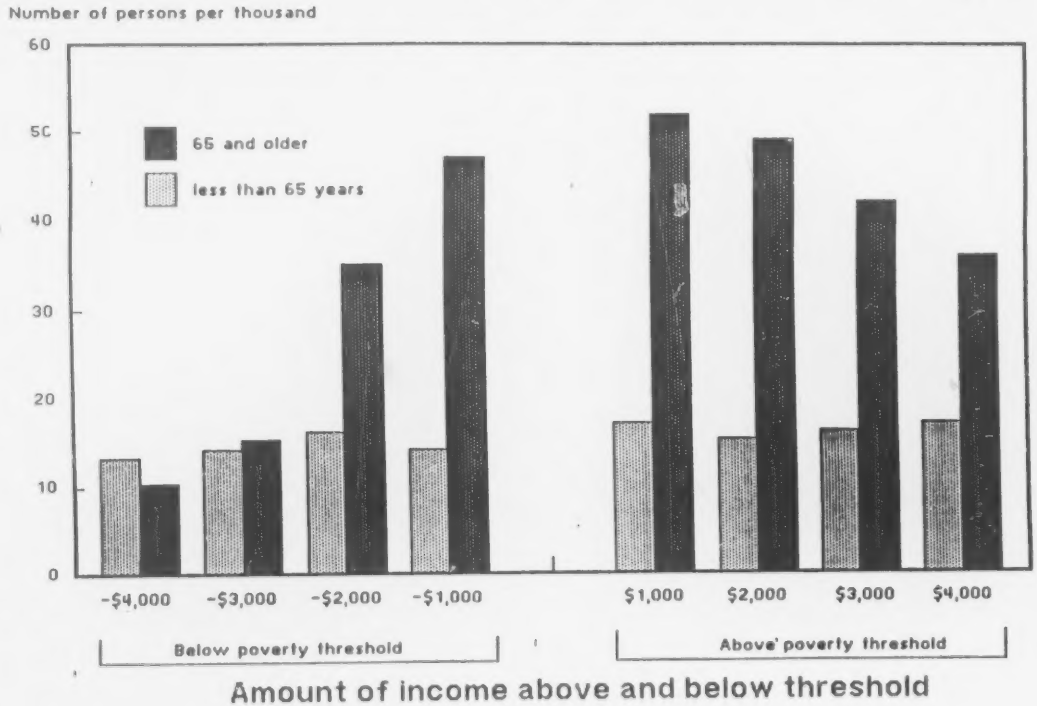
A. CHARACTERISTICS OF THOSE EXCLUDED WITH AGED THRESHOLDS

Estimates of poverty that collapse the poverty levels for elderly unrelated individuals and elderly two-person families into the corresponding higher thresholds for the nonelderly indicate that poverty rates increase 20 percent for persons 65 and older. More than 700,000 older persons would be added to the number of persons in poverty.

AARP analysis indicates that the overall poverty rate increases from 13.1 to 13.4 percent when the aged thresholds are eliminated. The poverty rate by age groups remains relatively the same, except for those 65 and older, whose rate increases significantly from 12.0 percent to 14.4 percent.

Dramatic increases occur for aged persons because they are disproportionately distributed near the poverty thresholds (see Chart 2). Therefore, a small revision upward (eliminate the aged

Incidence from Poverty Thresholds by Age



Current Population Survey data, March 1989
Prepared by AARP Public Policy Institute

KKS/6/90

Chart 2

thresholds) can have a rather large impact upon the count of older persons in poverty.

The demographic subgroups that are most affected are elderly women who are not married and the very old. Those most likely misclassified are older women living alone.
The age composition of the poor changes only slightly when age thresholds are not used. The percentage of poor under the age of 18 only drops one percentage point (from 40 to 39 percent and the proportion over the age of 65 increases by two percentage points (from 11 to 13 percent). Gender does not change with 57 percent of those in poverty being female, regardless of whether or not the age thresholds are use.

B. CHARACTERISTICS OF THOSE EXCLUDED WITH USE OF CPI-U-X1 TO ADJUSTED PRE-1983 THRESHOLDS

Similar trends in poverty over time are observed regardless of the CPI used, but the use of the CPI-U-X1 produces a lower estimate of the prevalence of poverty. The number of persons of all ages in poverty in 1988 was 3.5 million lower using the CPI-U-X1, and the overall poverty rate was 1.5 percentage points lower (11.6 versus 13.1 percent). Those excluded from poverty with the CPI-U-X1 thresholds tend to be women and those who live in families, rather than living alone. Nearly one-half of those who would no longer be deemed to be in poverty live in families of one or two persons. As indicated in Table 4 those excluded from poverty status tend to be children under the age of 15 and persons 55 and older.

Table 4. Number and poverty rate by age of person using official poverty thresholds and thresholds based on CPI-U-X1, 1988.

Age	Official thresholds		Thresholds using CPI-U-X1	
	Number (in thousands)	Poverty rate	Number (in thousands)	Poverty rate
Under 15	10,961	20.5	10,087	18.9
15-24	5,621	15.7	5,073	14.1
25-44	7,766	9.8	6,878	8.7
45-54	1,900	7.7	1,697	6.9
55-59	1,023	9.6	870	8.2
60-64	1,125	10.4	942	8.8
65 +	3,482	12.0	2,782	9.6

Source: U.S. Department of Commerce, Money Income and Poverty Status in the United States: 1988 (Advance Data from the March 1989 Current Population Survey). P-60 No. 166. 1989.

The age composition of the poor changes only slightly when the CPI-U-X1 is used to annually adjust all thresholds. The percentage of the poor under the age of 18 increases by only one percentage point (from 40 to 41 percent) and the proportion over the age of 65 decreases by one percent (from 11 to 10 percent).

C. CHARACTERISTICS OF THOSE EXCLUDED WITH VALUATION OF IN-KIND INCOME

As would be expected when "income" of households is increased, the poverty rate decreases. As published by Census, the poverty rate for 1988 declines from 13.1 percent for all persons to 10.5 percent when values are included for employer-provided health insurance, means-tested government transfers, and nonmeans-tested government transfers. About one-fifth of those officially classified in poverty are suddenly removed when the value of employer-provided health insurance, Medicare, Medicaid, food stamps, rent subsidies, and free school lunches are added to money income.

Those 65 and older and black persons, however, are more likely to be removed from poverty with the inclusion of noncash benefits and in-kind income. One in four older Americans are excluded in the poverty counts. Also, nearly one in four black Americans are removed from poverty. These results are not surprising since blacks and older persons more commonly receive noncash benefits, particularly health care.

IV. IMPLICATIONS OF SUGGESTED CHANGES ON OMB POVERTY GUIDELINES

A simplified version of the poverty thresholds is used for administrative purposes, such as determining whether a person or family is financially eligible for assistance or services under a particular federal program. The poverty thresholds are used by Census to prepare its statistical estimates of the number of persons in poverty. In the following discussion measures used by Census to count the poor are referred to as "poverty thresholds", those used to determine program eligibility are referred to as "OMB poverty income guidelines".

Since the poverty thresholds are about two years old and do not represent today's poverty situation (for instance the most recent published thresholds are for 1988), calculations are made to estimate more current levels for determining program eligibility. The OMB poverty income guidelines, however, only adjust the weighted average thresholds for the previous year's inflation. Therefore, the standards used to determine if one is living in poverty are truly one year old and still do not reflect current poverty levels (see Table 5).

Two of the changes under discussion would not affect the amounts specified in the OMB poverty income guidelines.[7] The third, changing to the CPI-U-X1, would change the guidelines and thus would affect program eligibility.

Table 5. Comparison of 1988 Poverty Thresholds with 1988 Poverty Income Guidelines.

Size of family	Poverty thresholds	Poverty income guidelines	Difference
1	$6,024	$5,770	$254
2	$7,704	$7,730	$26
3	$9,435	$9,690	($255)
4	$12,092	$11,650	$442
5	$14,305	$13,610	$695
6	$16,149	$15,570	$579
7	$18,248	$17,530	$718
8	$20,279	$19,490[1]	$789
9	$24,133		

[1] For families with more than eight persons add $1,960 for each member.

If the CPI-U-X1 was used to make retroactive adjustments to poverty thresholds, the poverty income guidelines would also be lowered by about 9 percent (see Table 6). However, the number of families and unrelated individuals declines by 11 percent, because of the clustering around the poverty income guideline cut off amounts. The CPI-U-X1 would cause 1.5 million families and unrelated individuals to be disqualified from Medicaid, Food Stamps, Low Income Home Energy Assistance Program, housing assistance, legal aid, and many other programs that use the poverty income guidelines as the basis for program eligibility.

[7] The OMB poverty income guidelines would not be affected if the weighted average thresholds for one- and two-person families continued to be used. However, if the under 65 thresholds were used in calculating the OMB poverty guidelines, the result would be higher amounts for families with three or fewer persons and lower amounts for families with five or more persons. See the appendix for suggestions on how to address this problem.

Table 6. Comparison of 1990 Poverty Income Guidelines with guidelines based on CPI-U-X1 poverty thresholds.

Size of family	Offical poverty income guidelines	Guidelines using CPI-U-X1 thresholds	Difference of official minus CPI-U-X1
1	$6,280	$5,730	$550
2	$8,420	$7,670	$750
3	$10,560	$9,610	$950
4	$12,700	$11,550	$1,150
5	$14,840	$13,490	$1,350
6	$16,980	$15,430	$1,550
7	$19,120	$17,370	$1,750
8	$21,260	$19,310	$1,950

AARP analysis indicates that if the OMB poverty income guidelines reflected the proposed CPI-U-X1 changes in the pre-1983 thresholds, more than 3 million persons would be ineligible for programs that use the OMB poverty income guidelines as their criteria. Nearly one-third of these persons live by themselves and two-thirds of these are women living alone. Of the families and unrelated individuals who would be ineligible for low-income assistance programs, AARP found that one-half receive Social Security benefits and/or have income from wages or salaries. More than one-fifth of these families and single individuals receive cash assistance in the form of public assistance or Supplemental Security Income.

Clearly, the proposed change would drastically impact upon the lives of many poor persons. Changes to the thresholds do not simply affect the counts of persons in poverty, but will also, in the case of the CPI-U-X1, disqualify poor persons from the help they need. Also, the CPI-U-X1 would lower the federal deficit at the expense of the poor.

V. CONCLUSION

A standard that truly reflects economic hardship in the United States must be used to identify those who simply cannot live on their incomes and need financial assistance. They are not slipping through the "holes in the safety net", because they do not even have a net at which to grasp. Until these persons are properly counted as those in poverty, low-income assistance programs will continue to miss them.

An accurate measure of poverty is vital to the development of criteria by which to judge the success of government programs. Low counts of persons in poverty mislead the public, program administrators and policy-makers, and can result in the curtailing of income assistance. To that end we wish to emphasize the following:

- Aged poverty thresholds should be eliminated,
- CPI-U-X1 should not be used to update pre-1983 thresholds,
- In-kind income and noncash benefits should not be considered in poverty status determinations.

These, however, do not incorporate all the problems associated with the measurement of poverty and AARP encourages a more indepth examination of the problems not examined today.

APPENDIX

EFFECT OF USE OF UNDER 65 POVERTY THRESHOLDS ON OMB POVERTY INCOME GUIDELINES

The use of the under 65 poverty thresholds to calculate the OMB poverty income guidelines would change the amounts. This occurs because the guidelines are calculated from a weighted threshold that incorporates both thresholds for aged and nonaged persons. The elimination of the aged thresholds would cause the poverty income guidelines to be higher for families of three or fewer persons and lower for families with five or more persons. Clearly older households are disadvantaged by the inclusion of the poverty thresholds for persons 65 and older. However, their elimination would lower the guidelines for large families with several children (see Table A).

Table A. Comparison of 1990 Poverty Income Guidelines with guidelines calculated without the aged one- and two-person thresholds.

Size of family	Offical poverty income guidelines	Guidelines without aged thresholds	Difference
1	$6,280	$6,340	60
2	$8,420	$8,460	40
3	$10,560	$10,580	20
4	$12,700	$12,700	0
5	$14,840	$14,820	-20
6	$16,980	$16,940	-40
7	$19,120	$19,060	-60
8	$21,260	$21,180	-80

Such lower poverty income guidelines for large families do not necessarily have to occur if the weighted thresholds are simply multiplied by an inflation adjustment factor. By excluding the step that adjusts for the average difference for all family sizes, the elimination of the aged threshold would not have an adverse effect on the OMB poverty income guidelines for families of five or more members.

AARP questions why the particular methodology is used to develop the OMB poverty income guidelines. A simple change in methodology could result in a more accurate set of poverty income guidelines, as shown in Table B:

Table B. Comparison of 1988 Poverty Income Guidelines with experimental guidelines calculated by an inflation factor only.

Size of family	Offical poverty thresholds[1]	Experimental guidelines adjusted only for inflation[2]	Difference
1	$6,155	$6,023	$133
2	$7,958	$7,788	$170
3	$9,435	$9,230	$205
4	$12,092	$11,835	$257
5	$14,305	$14,007	$298
6	$16,149	$15,831	$318
7	$18,248	$18,011	$237
8	$20,279	$19,851	$428
9	$24,133	$23,766	$367

[1]Excludes aged thresholds.
[2]Calculations do not incorporate the aged thresholds and use the inflation rate plus 2 percent.

A comparison of the above Table B with Table 5 shows that difference between the poverty thresholds and the poverty income guidelines is smaller with the experimental guidelines we propose.

Representative HAMILTON. Thank you very much, Ms. Scholl.
Mr. Weicher, please proceed.

STATEMENT OF JOHN C. WEICHER, ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. WEICHER. Thank you, Mr. Chairman, I am very pleased to appear before this hearing of the Joint Economic Committee and I want to say that I am pleased in particular to appear before you, Mr. Chairman.

I am a native of Chicago but my family originates in southeastern Indiana. My grandfather was born on a farm in Jennings County and I have relatives in Bartholomew County and Columbus, in Madison, Spencer, and Terre Haute. [Laughter.] Many places south of Indianapolis.

Representative HAMILTON. Have you ever thought of running for office? [Laughter.]

Mr. WEICHER. Unfortunately, other families down there have been more prolific than ours. I don't think I could get very far. But I am indeed very pleased and I appreciate also your pointing out in your introductory remarks that I am here to speak before you as a private citizen to discuss the subject that I did research on while I was in residence at the American Enterprise Institute. I now am the Assistant Secretary for Policy Development and Research at the Department of Housing and Urban Development and I certainly share Secretary Kemp's deep and heartfelt interest in waging a new war on poverty and empowering the poor to take control of their own lives. But I do not speak for the Department or the administration at this hearing. My testimony is directed at the subject of measuring poverty rather than finding ways to eradicate it.

The poverty rate serves three purposes in our society. First and most important, it is a broad measure of economic and social well-being. That was its original purpose, and it is certainly the way it is most commonly used. It has become the single most newsworthy fact about the poor in America. In addition, we sometimes use the poverty rate—increasingly we use the poverty rate to design low-income programs and we occasionally use data on poverty to assess the effectiveness of various programs.

I think in discussing the measurement issues in poverty it is useful to keep in mind these three basic purposes. As a social indicator, and in its most important use, there are two dimensions in poverty which I think have particular interest for us as a society. How is poverty changing over time, and what is the distribution of poverty among different groups in the population? Both of these purposes, but especially for the first I think it is essential to measure poverty consistently, not to change the conceptual basis of measurement without very good reasons for doing so. We have measured poverty in terms of real income on an absolute scale for 25 years. There are other concepts that are of interest, but they shouldn't replace the basic current concept, the basic current measure that we use.

For designing programs and for measuring the effectiveness of programs, I think that the poverty rate is a little less well suited.

This is essentially because the poverty line does not mark a qualitative distinction in terms of well-being. It is not really a dividing line between subsistence and starvation. It is better to be a couple of hundred of dollars above the poverty line than to be a couple of hundred of dollars below it, but not very much better. It is certainly very bad to be several thousand dollars below the poverty line, much worse than being just below the poverty line.

But we typically talk about the poverty line as if it were a qualitatively important distinction, something like the unemployment rate, which it is not. It measures a point in the income distribution. Up until a year or so ago I used to draw a distinction between the poverty line and the Iron Curtain and say that with respect to poverty it did not matter very much which side of it you were on if you were close to it. With the Iron Curtain it certainly did matter which side of it you were on.

A better measure for some of these purposes is the poverty gap, the extent to which the poverty population as a whole is below the poverty line. Some of our programs are designed only for people who are poor and who are raised by the programs part of the way to the poverty line but are not intended to be raised all the way to the poverty line. Some programs, the housing programs in particular, are not really geared to the poverty line at all. They are not geared to a concept that is based on the poverty line, but rather to a position within the income distribution of the population in a particular area. For different purposes we use different aspects of well-being in the programs. I think that is appropriate, and I think while there is increasing use of the poverty line for those purposes, I don't think that we should do that consistently and I see this in a sense as a kind of a false issue.

Let me turn basically to the question of measuring poverty consistently. Both Mr. Greenstein and Ms. Scholl have referred to the issue of the change in the Consumer Price Index in 1982 to measure different concepts of home ownership. I did some of the work on that issue when it first became noteworthy, and I do believe that it is appropriate to measure the cost of home ownership and the cost of living on a consistent basis over time. It seems to me that we changed the way in which we measure the cost of home ownership. We have one version of the Consumer Price Index before 1983 and another since then. If we had measured it consistently over time in either way the poverty line now would be significantly lower and the poverty rate would be significantly lower than it is. Measuring consistently by the current method, the CPI-U-X1, the poverty rate would be 11.6 percent. It is not possible to construct an exact measure using the previous version of the cost of home ownership, but it is clear that the poverty line would be lower, I think, than 11.6 percent because that earlier version was very heavily tied to the mortgage interest rate. And at the point at which the conceptual difference was made, the change was made, the mortgage interest rate was 15 to 16 percent. Since then it has come down into the range of 10 to 11 percent. That would have brought the overall poverty rate down fairly significantly if we contined to use that measure.

We spliced the two series together in such a way that the poverty rate is now higher than it would be if we had followed either

one of them consistently over the last 25 years. We have from time to time in the past changed the poverty line measurement in such a way that we have come back and recalculated the poverty line for earlier periods on a consistent concept. And I think we can do that again. It would provide better information with respect to inkind benefits.

I think here it is useful to bear in mind that our policies toward providing help to the poor changed substantially between the time the poverty line was created and the present. In the mid-1960's there was very little in the way of inkind benefits, mainly public housing. Some 635,000 families received public housing benefits in the mid-1960's. Not all of them were poor by any means. Now, we have food and medical care, large numbers of poor people receiving both. And in addition, we have many more families receiving subsidized housing than formerly did; eight times as many at this point. If we had measured the poverty line net of inkind benefits in the mid-1960's as best we could, I think the poverty line would have been somewhere between 16 and 16½ percent in the mid-1960's and we would now say that the poverty rate had gone from 16½ percent down to 8 or 8½ percent in 25 years, as opposed to going, by the cash version, from 17 percent down to 13 percent.

There are important measurement issues with the inkind benefits, not particularly with food stamps, but with medical care and housing. Both of them are large noncash transfers relative to the incomes of the recipients, poor and nonpoor alike. In both cases there are conceptual problems with measurement. It seems to me that substantial work could be done to measure the value of housing benefits, but I think that the measurement issue should not obscure the fact that these provide a significant increase in the well-being of the poor and that we should take that into account in judging the well-being of the poor.

And may I say just briefly, I touch on other concepts in the prepared statement, the idea of a consumption based threshold; also the idea of a threshold based on the income distribution, on the degree of inequality. I think both provide useful information and I think neither is a substitute for the current poverty concept. I think especially a measure of inequality would be a bad measure because that is a totally different concept. It is of interest in regard to the distribution of income in the United States, but that is not the way that we have defined poverty and that really isn't the way that we should redefine poverty, although we should certainly be interested in that.

Finally, I just want to say that at the conclusion of my prepared statement you will find a chart showing the trends in poverty for several measures: the official rate, the rate using the corrected cost of home ownership, and measuring value of inkind benefits. And if you look at them you will see that they all move very similarly over the period 1979 to the present. They all went up sharply during the recession and they have come down slowly during the long economic expansion. And for the two that go back before 1980 we see the same pattern, sharp increases in the 1973–75 recession; slow recovery during the expansion, again a long expansion from 1975 through 1979. I think that is the most important thing that we should be concerned about.

Why has it been so hard to reduce the poverty rate over the last two cycles, over the last 15 years or more? I think improved measurement would be of use for a number of purposes, but improved measurement should not divert us from the basic attention that by any reasonable measure we have a problem, a problem which is somewhat intractable and that we need to devote our attention to that.

Thank you, Mr. Chairman.

Representative HAMILTON. Thank you, Mr. Weicher; and thank each of you for not only good testimony but very excellent prepared statements which, of course, will be entered into the record in full.

[The prepared statement of Mr. Weicher follows:]

PREPARED STATEMENT OF JOHN C. WEICHER

I am pleased to participate in this hearing of the Joint Economic Committee on the subject of measuring poverty. Before beginning my testimony, I want to stress that I am appearing before you in a private capacity, to discuss a subject that I studied while in residence at the American Enterprise Institute, which is a private research institution. I now serve as Assistant Secretary for Policy Development and Research at the U.S. Department of Housing and Urban Development, and I certainly share Secretary Kemp's deep and heartfelt interest in waging a new war on poverty and empowering the poor to take control of their own lives. But I do not speak for the Department or the Administration at this hearing. My testimony is directed at the subject of measuring poverty, rather than finding ways to eradicate it. My purpose is to address some basic general issues that have relatively broad implications.

WHY DO WE MEASURE POVERTY?

The poverty rate serves three purposes. First and most important, it is a broad measure of economic and social well-being. This was its original purpose, and it is certainly used in that way. The poverty rate has become the single most newsworthy fact about the poor in America. Second, parameters based on the poverty rate are increasingly used in the design of low-income programs. Third, poverty data are used occasionally to assess the effectiveness of various programs.

There are numerous measurement issues concerning the subject of poverty, and they have attracted increasing attention as the poverty rate has gained political significance. In discussing these issues, it is useful to keep in mind the basic purposes of the concept.

As a social indicator, poverty has two dimensions of particular interest: changes over time, and differences among groups. For both these purposes, but especially the first, I believe that it is essential to measure poverty consistently, and not to change the conceptual basis of measurement without very good reasons for doing so. Poverty has been measured in terms of real income, on an absolute scale, for 25 years. While other concepts are certainly of interest, they should not replace the current concept.

In designing programs, the concept of poverty is used to determine eligibility (for example, whether a family's income is above or below the poverty threshold), and to allocate grant funds, based on the number of families who are poor. The poverty measures are less well designed for these purposes. The poverty line is a reasonable effort to estimate the cost of a minimally adequate standard of living, but it clearly does not mark a dividing line between subsistence and starvation. A family with an income $10 above the poverty line is not qualitatively better off than a family that is $10 below it. At the same time, a family that is $5,000 below the poverty line is much worse off than a family that is only $10 below it, but both are counted

equally.

The poverty rate is also used to assess the effectiveness of individual programs: how many people are lifted out of poverty? The poverty rate is one relevant indicator of effectiveness, but it is not the only one or the most important one, for the same reason that it is not especially useful in allocating program funds. An alternative measure is the depth of poverty rather than its incidence, known as the poverty gap; a program can be better evaluated in terms of the extent to which it reduces the aggregate poverty income deficit. It is often said, for example, that Social Security is the most effective anti-poverty program because it lifts more individuals out of poverty than any other. But this is because it is such a large program. A fairly small share of Social Security outlays go to people who are below the poverty line, or go to fill the poverty gap. Moreover, many low-income benefit programs are not tied to the poverty rate or poverty threshold. It is therefore rather arbitrary to judge their effectiveness by their impact on the poverty rate.

THE OFFICIAL MEASUREMENT OF POVERTY

The poverty line is based on research by Mollie Orshansky in the early 1960s, and is derived from two empirical observations: (1) the cost of the U.S. Department of Agriculture's "Economy Food Plan" as of 1961, and (2) the fact that U.S. families typically spent one-third of their income on food. Thus the poverty line was set at three times the cost of the Economy Food

Plan. Originally it was updated annually by the change in the cost of the Economy Food Plan, but in 1969 it was decided to use the change in the overall Consumer Price Index (CPI) instead, and the figures for previous years were adjusted accordingly.

Different poverty thresholds are calculated based on household size, and whether the household head is elderly. Until 1982, adjustments were also made for farm or nonfarm residence, and by sex of householder.

MEASUREMENT INCONSISTENCIES

Formally and officially, poverty is still measured in the same way that it was in the 1960s. In fact, however, the official measure is not consistent over time, for two reasons.

The first concerns the use of the CPI for adjusting the poverty thresholds. The CPI is certainly the best available broad gauge of changes in consumer prices, but it has not measured them in the same way over the last 25 years. In particular, in 1983 the Bureau of Labor Statistics changed the way in which the cost of homeownership is measured in the CPI. The original method mismeasured the cost of owning a home, particularly during periods of inflation. It gave too much weight to changes in house prices and especially mortgage interest rates. After 15 years of erratic but accelerating inflation, by the end of 1979 the homeownership component amounted to 25 percent of the CPI, while the "typical" family spent only 11 percent of its income for homeownership. (This

typical family is a weighted average of owners and renters; owners spent about 17 percent of their income on their housing.) The measurement problem was widely recognized among housing analysts. Several constructed alternative indices that showed a much smaller increase in the cost of owning a home, and a smaller rise in the CPI than was officially reported, through the 1970s.

BLS was itself aware of the measurement problem by at least 1975, but was unable to correct it until 1983. The Bureau now measures the cost of homeownership as its "rental equivalence," or the amount that would have to be paid if the owner actually rented the home from someone else. This measure has been used in the National Income and Product Accounts for many years, and has general support among independent analysts.

The change at the beginning of 1983 means that the annual adjustment to the poverty line is not being made on the same basis as it was earlier. It is not possible to carry the original method forward after 1983, and in any case that method is inferior to the present one. (It is likely that the poverty rate would have come down more rapidly after 1983 if the original method were used, because mortgage interest rates have fallen sharply since 1983.) It is, however, possible to adjust the poverty rate by the current method for the years before 1983, using the CPI-U-X1, an experimental version of the CPI that measures the cost of owning a home in terms of rental equivalence. I originally did this through 1985 in a paper

published in the Cato Journal;[1] the Census Bureau subsequently published precise numbers based on the original raw survey data in an appendix to the 1988 report on poverty and household income.[2] The corrected figures show that the poverty rate would be about one-eighth lower today, if the cost of homeownership had been measured consistently. In 1988, the rate would be 11.6 percent instead of the reported 13.1 percent.

The second inconsistency concerns in-kind benefits. In the 1960s, most social welfare programs provided assistance in the form of cash. The major exception was public housing, which served about 635,000 families and elderly individuals, not all of whom were poor. It was therefore easy and reasonable to establish a poverty standard in terms of cash. Since then, however, large in-kind benefits for food and medical care have been created: 19 million individuals receive food stamps, 25 million receive medicaid, and 33 million are enrolled in medicare. In addition, the number of households receiving housing subsidies has grown to 4.5 million (more if Farmers Home Administration programs are included) and HUD estimates that 3.0 million of them are poor.

These programs contribute to the well-being of recipients, who previously had to pay for food, housing, and medical care out

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[1] "Mismeasuring Poverty and Progress," Vol. 6, No. 3, Winter 1987.

[2] "Money Income and Poverty Status in the United States: 1988," Current Population Reports, Series P-60, No. 166, October 1989, Appendix F.

of their cash incomes. The benefits should be counted in order to preserve consistency over time. The Census Bureau has published estimates of poverty counting the value of in-kind benefits, beginning with 1979. Although their methods of valuing the different types of benefits have changed several times, these estimates show a similar pattern to the official statistics over the last decade.

To date, the Census Bureau has not used its experimental series of poverty thresholds as measured by the CPI-U-X1 to measure poverty against the total of cash and in-kind income, a measure that would be more comparable to the original poverty rates of the 1960s. It is my understanding that such measures will be released this fall for 1987 through 1989.

It would probably be impossible to construct a poverty rate incorporating non-cash benefits for the 1970s and late 1960s, although there were earlier efforts by private analysts and the Congressional Budget Office to value non-cash benefits at various times. Nonetheless, it is clear that the poverty rate has declined much more over the last 25 years when in-kind benefits are included than the official rate indicates. This would be true even on the extreme assumption that all public housing residents in 1965 were poor (which was not the case according to HUD program data at that time), and that they were raised above the poverty threshold because of the in-kind benefits they received in the form of public housing.

There are important issues and conceptual difficulties in

valuing in-kind benefits. The main conceptual problem is that benefits in kind are worth less to the recipient than would be the same dollar amount in cash. Measuring food stamps is straightforward; most analysts have concluded that they are indistinguishable from cash, from the recipient's point of view. Measuring medical care and housing are more complicated, partly because the amount of benefits is large per recipient and partly because the benefits are hard to evaluate. It is not reasonable to value medicare or medicaid in terms of the value of services received; on that basis, the sicker you are, the higher your income. A more appropriate measure is the insurance value of the benefit, the amount the recipient would have to pay for a private policy providing the same benefits.

Housing benefits have received less attention, even though outlays per recipient household appear to be as large in the housing programs as in medicare or medicaid. Benefits are provided in different ways for different programs. Most recipients are given the choice between a particular apartment that is available when their name comes to the top of the waiting list, or no assistance at all. This is the situation for public housing and other project-based assistance. Vouchers and tenant-based certificates are more flexible; the family can use them to rent any house or apartment that it wishes, as long as the unit meets the program standards for quality and rent level (in the case of the certificate program). The voucher and certificate programs probably provide more benefit to the family per dollar

of government expenditure, for this reason.

My personal view is that further research on valuing housing benefits would be worthwhile. The current procedure used by Census is conceptually correct; the market rent of the house or apartment is estimated, and the rent paid by the tenant is subtracted.[3] However, the measurement of market rent could probably be improved. I don't know whether the reported poverty rates would be smaller or larger, with better measurement.

THE DISTRIBUTION OF POVERTY

So far, I have concentrated on consistent measurement of poverty over time. I want to turn briefly to poverty among different groups. Here the problem of inconsistency is smaller, with one exception. The pattern of poverty within the population in any year does not vary much if either of the foregoing adjustments is made. Poverty continues to be concentrated disproportionately among minorities and female-headed families. The two adjustments strengthen the measured "feminization of poverty" that has been remarked in recent years.

The exception is the elderly. Those who are poor are relatively close to the poverty line, compared to the rest of the population. At the same time, those who are not poor also tend to be close to the poverty line. This means that, if the poverty

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[3] U.S. Bureau of the Census, Measuring the Effect of Benefits and TAxes on Poverty: 1986. Current Population Reports, Series P-60, No 164-RD-1, Appendix B.

line were lower, as it would be for each of the adjustments I have mentioned, poverty among the elderly would be particularly reduced; and if the poverty line were adjusted so that it is higher, poverty among the elderly would be raised more than for other groups.

OTHER CONCEPTS OF POVERTY

A number of other adjustments and even alternative concepts have been proposed in recent years. Suggested adjustments include differences by region or by demographic status to take account of differences in consumption patterns, modifications in the adjustments by household size, and so on. My sense is that, except in unusual circumstances, these adjustments would not affect the overall trends in poverty, although they might have some effect on the demographic patterns. In most cases, the adjustments could be reconstructed for earlier years, so consistency could be preserved.

Two alternative concepts deserve special attention. Poverty has always been measured on the basis of income; it theoretically could instead be measured on the basis of consumption. The logic of this approach is that consumption determines economic well-being more directly than income, particularly for the poor. Another possible advantage is that it may automatically correct for income underreporting, at least in part. A consumption-based measure would be a useful supplement to the current income-based measure, but should not supplant it.

The other alternative is totally different conceptually from current practice. The poverty line is a cardinal measure of economic well-being. It is an absolute standard: how many people have a real income below a particular level? It is sometimes suggested that poverty should be measured in relative terms, on the basis of the distribution of income. Those with incomes that are, say, half of the median would be defined as "poor." More generally, the poverty line could be raised in some systematic way as real incomes rose, to reflect the rising general level of well-being in the society.

The merit of this approach is that poverty is a cultural concept rather than a measure of subsistence, and cultural standards can change. Surveys indicate a public perception that something like half the median family income is necessary for a minimum standard of living; as the median rises, so does the necessary minimum income, according to these surveys. It can be argued that, if the public thinks of poverty in relative terms, it should be measured that way.

My view, however, is that these two fundamentally distinct concepts should be kept distinct, and moreover that the term poverty should be kept for its original purpose. There is no useful public purpose served by redefining "poverty" to mean "inequality." The Census Bureau has for many years published measures of income inequality, but they have attracted substantially less public attention than the poverty rate.

POLITICAL ARGUMENTS ABOUT MEASUREMENT

Measurement issues become the subject of heated political debate mainly because the poverty rate has become so noteworthy in public discussion. They attract public attention and support because they result in different poverty rates. I have heard both liberals and conservatives assert that the poverty rate should be higher or lower than the currently reported rate, not because they are concerned about the measurement issues, but because they believe a different reported poverty rate will change public policy.

For example, a number of independent analysts across the political spectrum have recognized the merit of using the CPI-U-X1. Yet when the Census Bureau published such a poverty series in an appendix to last year's report, several editorials objected to the procedure as an attempt to minimize poverty. In fact, the trend in the two measures is almost identical since 1980.

A consumption-based standard might show a lower measured poverty rate, because surveys generally find that the consumption of the poor exceeds their reported income. By the same token, many measures of inequality could be created that would show an increase in "poverty," because the distribution of income among families -- and to a much lesser extent, households -- has become somewhat less equal. These concepts and measures are interesting in their own right, but they should not be substituted for a long-established, conceptually straightforward measure of real income.

The question of whether in-kind benefits should be included in determining poverty has been the most controversial. Sometimes the arguments on this issue become convoluted and inconsistent. Some ardent advocates of the programs have nonetheless argued that they should not be counted as reducing poverty, because that would weaken support for further anti-poverty efforts. This raises the question of why have the programs, if they don't help the beneficiaries? On the other hand, some critics of the programs have nonetheless counted them in measuring poverty, and then argued that they are no longer necessary because poverty is so low. But if the in-kind programs were terminated, the poverty rate would be the current official rate, or preferably the rate based on the CPI-U-X1. Few people believe either is a low rate.

The alternatives provide interesting insights about economic well-being in our society. But that might be the case with both of these concepts.

CONCLUSION

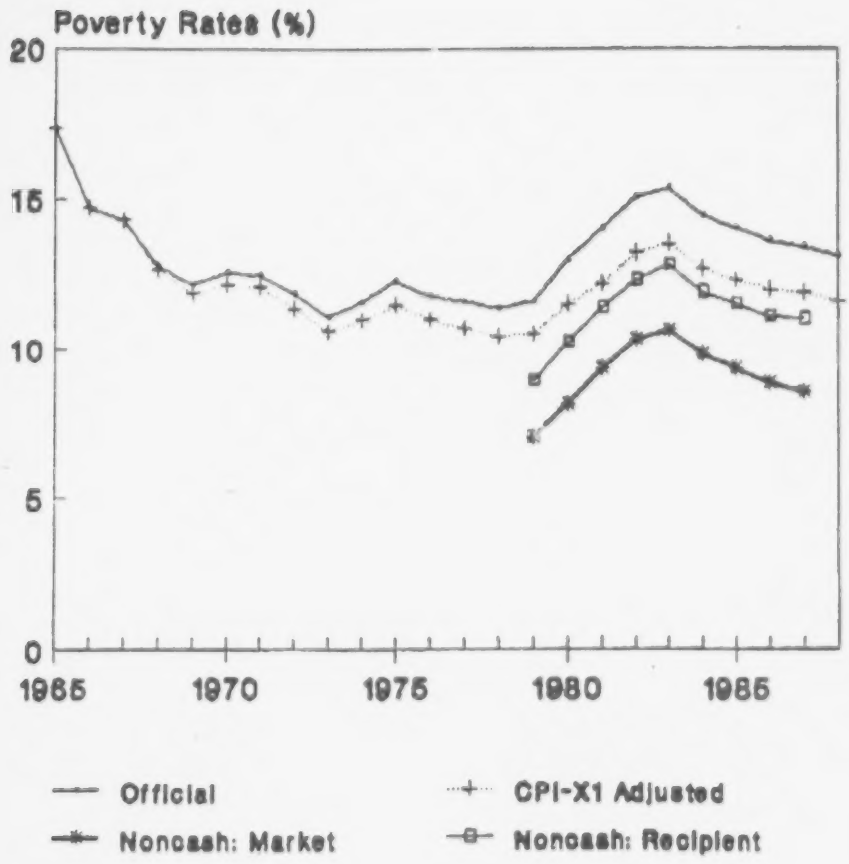
I would like to conclude this discussion of measurement issues by suggesting that they may be relatively unimportant in the context of public debate about policy. I have referred to three measures of poverty: the official rate, the rate using the corrected homeownership measure in the CPI, and the rate including in-kind benefits.

There are differences among these three measures; however,

there is an important fundamental similarity. All three have followed a disturbing pattern over the current business cycle. They rose sharply during the recession years from 1980 through 1982, peaked in 1983, then came down relatively slowly. This is not simply a phenomenon of the 1980s; it also occurred during the 1973-1979 cycle. Moreover, these patterns are not well understood. Most if not all of the econometric models attempting to explain poverty have failed to predict well in recent years; they project lower poverty rates --larger declines from year to year -- than have in fact occurred. Changes in the economy, and changes in transfer programs, do not seem to have the same effect on poverty that they had a decade ago.

While I certainly believe it is important to measure poverty well, and consistently, I do not think that refinements in measurement will affect the basic pattern of the last 10 to 15 years. It is not very fruitful to argue about what "the poverty rate" is today. It is more important to try to understand why it has changed relatively little over an extended period.

Poverty Rates: Official, CPI-X1 Adjusted, & With Noncash Benefits



Testimony by John C. Weicher

Poverty Rates: Official, CPI-X1 Adjusted, and Including Value of Noncash Benefits

	Poverty Rates				Number of Poor People (Millions)			
	Cash Measures		Noncash Measures		Cash Measures		Noncash Measures	
Year	Official	CPI-Adjusted	Market Value	Recipient Value	Official	CPI-Adjusted	Market Value	Recipient Value
1965	17.3	17.3			33.2	33.2		
1966	14.7	14.7			28.5	28.5		
1967	14.3	14.3			27.8	27.8		
1968	12.8	12.7			25.4	25.2		
1969	12.2	11.9			24.1	23.5		
1970	12.6	12.2			25.4	24.6		
1971	12.5	12.1			25.6	24.8		
1972	11.9	11.4			24.5	23.5		
1973	11.1	10.6			23.0	22.0		
1974	11.6	11.0			23.4	22.3		
1975	12.3	11.5			25.9	24.3		
1976	11.6	11.0			25.0	23.4		
1977	11.6	10.7	—		24.7	22.9		
1978	11.4	10.4			24.5	22.4		
1979	11.6	10.5	7.0	8.9	26.1	23.4	15.7	19.7
1980	13.0	11.5	8.1	10.2	29.3	25.9	18.2	23.0
1981	14.0	12.2	9.3	11.4	31.8	27.7	21.0	25.8
1982	15.0	13.2	10.3	12.3	34.4	30.3	23.6	28.3
1983	15.2	13.5	10.6	12.8	35.5	31.2	24.5	29.6
1984	14.4	12.7	9.8	11.9	33.7	29.7	23.0	27.8
1985	14.0	12.3	9.3	11.5	33.1	29.1	21.9	27.2
1986	13.6	12.0	8.8	11.1	32.4	28.6	21.0	26.6
1987	13.4	11.9	8.5	11.0	32.3	28.6	20.4	26.6
1988	13.1	11.6			31.9	28.3		

Sources: John C. Weicher, Mismeasuring Poverty and Progress," Cato Journal, Winter 1989; Current Pop Reports, Ser P-60, #166, T. 18 & F-2, and "Estimates of Poverty Including the Value of Noncash Benefits, 1987." Census Bureau Technical Paper 56, 1988, Table B.

Definitions:
(1) Official poverty rate.
(2) Same, using CPI-U-X1 deflator for 1965-82.
(3) Poverty rate including market value of food, housing, and medical care.
(3) Same, but using recipient value approach.

Representative HAMILTON. Let's just begin with a comment, Mr. Weicher, that you make in your prepared statement that it is essential to measure poverty consistently and use that argument as kind of a counterpoint to Ms. Scholl and Mr. Greenstein. So, the question goes to Mr. Greenstein and Ms. Scholl, why do you think it is not advisable to measure poverty consistently?

Mr. GREENSTEIN. First, let me partially agree with Mr. Weicher in some of his comments. For example, I agree with him that poverty should not be a relative measure of inequality. I do not favor ideas such as the poverty line being a certain percentage of median income and moving along with the income of the general population. But I do think that we need to keep in mind what we are trying to do when we measure poverty in the first place—what the public thinks we are trying to do when we measure poverty in the first place.

While Mr. Weicher is certainly correct that there is no magical line on one side of which you are not at all in bad shape and on the other side of which you're in terrible shape. Nevertheless, the concept is to try and find some point below which the degree of hardship is viewed as unacceptable. This is really a question of societal norms to some degree. This is not purely a technical analytical question. I think that the point as stated by Pat Ruggles in her book "Drawing the Line" really hits the fundamental issue. If you want to take to its logical conclusion the idea that we should never change the way we measure poverty, and you go for 50 or 100 years, and if we had done that historically, you would in a sense still be using a poverty line that was based on a time when it didn't take account of such things as indoor plumbing, child care costs, electricity, and things of that sort.

I am not suggesting that we change the poverty line every other year to make it relative to the general income movement in the society, but that periodically—whether it is every 10 years or every 30 years, I am not really sure—we need to go back and take a look at the basic measure below which we as a society judge hardship to exist.

Representative HAMILTON. And we don't do that now?

Mr. GREENSTEIN. We don't do that now. That is what we attempted to do imperfectly, but any approach would have been imperfect in the early 1960's when the original poverty line was established. It is now more than a quarter of a century later. We need to take another look at it and see what we as a society think is the measure of the sorts of things that are necessities you need to have. And if you don't have those you really are experiencing a hardship. Otherwise you get a technical, "inside the beltway" definition that has no relevance to most of the public.

Ms. SCHOLL. I would like to agree with what Mr. Greenstein said, to address your point more directly about a consistent measure over time. It is my understanding that the data on which the CPI-U-X1 are based were not collected in those early years with the accuracy that they are measured today and that these numbers are experimental for research purposes only. So, therefore, the position of the association is that we do not support retroactively changing the thresholds with a data series that is experimental. As I understand the index measure was changed in the late 1960's from the

December-to-December change in food prices to the CPI. That was a totally different situation. There was no change in the methodology used in collecting and determining the Consumer Price Index. It was just changing from the one index to the other.

Representative HAMILTON. All of you agree, I guess, that the official poverty lines are very low; right?

Ms. SCHOLL. Yes, we agree.

Representative HAMILTON. Do you agree with that, Mr. Weicher?

Mr. WEICHER. I think the question is a low compared to what? And my point basically, Mr. Chairman, is that the important thing about poverty is, are we making progress? And for that reason I think given a measure, the measure should be carried consistently forward over time.

Representative HAMILTON. You can tell whether or not we are making progress better if you keep with a consistent measurement?

Mr. WEICHER. That's right. And I think that is by far the most important thing to do is to use it in that way and then rather than worrying about whether the poverty line is low or high, I would worry about the fact that the poverty rate is not moving very much.

Representative HAMILTON. How are we doing in making progress?

Mr. WEICHER. As I said at the end of my statement, both in my prepared statement and in my oral remarks, in the last two economic cycles the poverty rate went up sharply during the recession and came down slowly during the economic recovery. It is still—the latest recovery is, of course, still going on, the expansion is still going on. The poverty rate has come down a bit from year to year over the last few years. So, whether we get to as low a rate as we had in the beginning of the cycle we will see over the next 2 or 3 years or so.

Mr. GREENSTEIN. If I could add a couple of points there. Again, I probably concur with John Weicher. If we had a poverty line that changed from year to year we would have difficulty in measuring what is going on. I think that the approach I favor gives you the best of both worlds. It allows you not to make any changes at all for considerable periods of time, whether it is 20 years or 25 years, or whatever, but periodically at some interval you really do have to reassess what the society regards as basic necessities.

I would make one other key point. If we are talking about consistency, nothing would be more injurious to consistency than to keep the poverty lines where they are, just to adjust them for inflation, but to change the measurement and to start counting considerable inkind benefits as income without changing the threshold. The current thresholds were based on cash income, not including inkind income, and particularly not including the very large costs of health care that we now have that are reflected in Medicare and Medicaid. So, again, you know——

Representative HAMILTON. Let me ask you this: Other countries must measure poverty as well, not just the United States. Do they keep a consistent definition of poverty all the time in these other industrialized countries? Do they change it, do they update it regularly, how often do they update it?

Mr. GREENSTEIN. I am not that familiar with that. I recently read something on this and I am trying to recall it now. I believe that in Canada, if I remember correctly, it is not totally unchanging, that it does have some mechanism to adjust over time for changes in necessities. I am not sure if it is a pure relative income measure or a periodic update. I am not familiar at all with the measures in Western Europe. Maybe one of the other panelists is.

Mr. WEICHER. I know a little something about it, Mr. Chairman. Like Bob Greenstein I cannot give you a full direct answer. But the international comparisons of poverty are in fact comparisons of inequality. The most common measures that are collected by the European organizations on income distribution tell us how many people in a given county are how far below the typical income of that country. It is very difficult to make international comparisons of poverty in terms of our concept.

Representative HAMILTON. So, that is really not all that much help to us, I gather. We have a lot of questions here but I will go to some of my colleagues and come back for another round.

Congressman Obey.

Representative OBEY. Mr. Chairman, I really don't have time to stay very long, so I won't take very long. I apologize because I didn't get here in time to hear most of the statements.

Let me just ask a question probably totally unrelated to anything you have talked about. I hate to use poverty numbers period because I find that whatever numbers you use you wind up getting in such an argument about assumptions that you use that the argument is almost fruitless. I guess one thing that really has bothered me through the years in the political debate on poverty is how you really arrive at a realistic assessment of it given different community situations.

Example, Weyauwega, WI, a rural low-cost area except for places for costs such as food. New York, San Francisco, how do we today measure the true poverty condition in different regions with different costs, and how would you try to adjust that in order to arrive at an understanding that is more real both to politicians and laymen as well as economists?

Ms. SCHOLL. At one time there was something that was called the family budgets that showed standards of living adjusted for different cities and different regions. That series of publications were based upon some very outdated data that were collected in the 1960's. The Bureau of Labor Statistics felt that with budget limitations that they had that they could not continue that series.

Representative OBEY. Right.

Ms. SCHOLL. So, that wealth of information is lost today because we do not know what the comparisons are. There are some localities that do some measures. I am aware of the New York City budgets, that attempt to measure what is happening in their particular localities. But there is no nationwide effort to try to measure different costs of living by areas or regions.

Mr. GREENSTEIN. I would like to add to that. I think most people who have studied this would certainly agree with your proposition. Clearly there are differences in living costs and they are not reflected in the current poverty line, which is one poverty line threshold for the Nation as a whole. The difficulty has been really

a technical one. Nobody to date has come up with a very good way of doing those adjustments. If you take a metropolitan area, you have lower cost areas of New Jersey where costs are far less than in downtown Manhattan. You can have differences within metropolitan areas, within States and within regions that are as great as the differences between States, or between regions. Having said that, it certainly seems to me that we ought to take another try to see whether we can't come up with some way of doing it. On the one hand, any way of adjusting for regional or community differences is going to have problems with it. But the current method has problems with it too because costs aren't the same everywhere.

So, at the end of my prepared statement my recommendation was that we really needed to take a comprehensive look at a lot of issues related to measuring poverty. I would include, in the list of things that we ought to look at, whether there might not be some way to make some improvements through some kind of regional or community variation.

Mr. WEICHER. Congressman Obey, I took a look a few years ago at the budgets that Ms. Scholl referred to for different standards of living for different areas of the country. The differences between places certainly within the same region were almost entirely differences in the cost of housing. Commodities essentially traded on a national and certainly a regional market and the prices were about the same in different parts of the country. The differences between New York and Boston were infinitesimal except in the case of housing.

We do have measures of the cost of housing for different parts of the United States and indeed at HUD we have to have a measure of the cost of rental housing for low-income families for every county and every metropolitan area in the United States based on the setting of the census. That is the most important thing. With that you pick up, I think, the vast bulk of the differences, the urban rural differences and the regional differences around the country. It is not perfect, but it gets you a long way.

Representative OBEY. I have heard that before but I guess I frankly have problems with that because that isn't my own experience. Yes, I know housing is very different, but transportation costs can be very different. If you live in a district like mine, if somebody drives to work 45 miles a day, that is a hell of a lot different than getting on the subway in Washington. Food costs, the food costs—my wife told me last year—we have the cottage in a small northern community in my district—when we're at the cottage, are about 20 percent higher than they are in my hometown in the same congressional district for the same items.

I hate to tell you the difference in the costs of tomatoes. And so, I think it is more complicated than that. And my frustration is that I see a couple of years ago the Census Bureau says more people now living in poverty are more in poverty in rural America than urban. My question is, how can you tell? And I don't really know where to go from there because given the way we measure poverty, I don't really know whether that finding by the Census Bureau is true or not in real world terms.

Ms. SCHOLL. I think your point is very well made. The U.S. Department of Agriculture in the past collected the farm family

living expenses. It's no longer collected. It used to coincide with the Consumer Expenditures Survey, and when the Consumer Expenditures Survey was changed in the 1980's to an ongoing survey, there was no effort to collect comparable data for farm families or rural families. So, what you are talking about is very true and it is a real weakness of the measures that we have today.

Mr. GREENSTEIN. I would add on the rural-urban issue: because the large bulk of the population lives in metropolitan areas, the number of people who are poor is higher in metropolitan than in nonmetropolitan areas. But the poverty rate, the proportion of the population that is poor, is about 16 percent now in nonmetro areas, and about 12 percent in metro areas. That is such a large difference—one-third higher in the nonmetro areas—that even if we could somehow do all of these technical refinements on the complex issues that you have mentioned, it would alter the magnitude but not the bottom line that the poverty rate, the proportion who are poor, is higher in rural than in urban areas.

Representative OBEY. One last question. With respect to BLS, what kinds of additional data would you have them collect in this area? And what would your lists show in descending order of priority?

Mr. GREENSTEIN. I don't know that that is something that I have looked at enough in detail to be able to answer. Maybe one of the other panelists could.

Ms. SCHOLL. I would be happy to respond to that later in writing, but my first impression is that they would need to expand their sample size so that it would be more accurate than what it is today. We would have to do that to derive a sufficient measure of poverty.

Mr. WEICHER. I think the main thing that would be useful would be to collect the kind of information on relative costs of living for different locations to address the kinds of questions that you have raised. Is your experience in northern Wisconsin idiosyncratic or is it typical of rural areas versus urban areas? How many people actually do have 45-mile commutes versus people who walk to work? In some small towns it is a mixture and I think better information on that might enable all of us to have a more useful discussion.

Representative OBEY. Thank you, Mr. Chairman.

[The following letter of response was subsequently supplied for the record by Ms. Scholl:]

AARP

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July 13, 1990

The Honorable David R. Obey
U. S. House of Representatives
Washington, DC 20515

Dear Representative Obey:

At the June 14 Joint Economic Committee hearing on Measuring the Poverty Rate, you asked the witnesses to list in descending order of priority the kinds of additional data the Bureau of Labor Statistics would need to collect to construct measures of poverty for rural areas. The following response is being provided for the record.

Economic well-being measurements specific to the rural population are extremely difficult to make. In part this is a result of the large diversity within this population, even within a relatively small geographic location. For instance, the income needed to provide the necessities of life for a family living in rural Wisconsin may be the same as that for rural Iowa; yet, the income required for a rural family living in the northern part of an area may be much higher than that required for a family living in the rural southern portion. A large data gathering effort would need to be made to determine these differences.

The cost of pursuing such an effort has prevented the development of economic well-being measures for the rural population. Also, no agreement has been made as to the degree of specificity for such a measure -- national, regional, state, county, or local community. What is needed to construct a measure at the national level is addressed below.

During the hearing the measure of poverty was interchanged with the "cost-of-living". These measures, however, are different. The measurement of poverty is an estimate as to the amount of income required to provide necessities for the family. The cost-of-living is a measure of the change in prices of goods and services; this measure is termed the Consumer Price Index (CPI). The CPI is based upon a market basket of goods and services consumed by the poor and the nonpoor. The poverty thresholds, however, are not based upon a market basket of goods and services. Instead they are based upon the nutritional requirements of low-income families and what they spend on food.

Since an accurate measure of poverty thresholds and their annual update for inflation would require that both measures be constructed specifically for the rural population, both are addressed.

Poverty thresholds

The current measure of poverty is based upon the consumption of food by low-income households and the costs of food in the Economy Food Plan. The measure is updated annually by movement in the CPI-U. The construction of a poverty measure for rural persons is formidable since none of these key factors have been determined for the rural population. However, if, as was suggested at the hearing, the basic measurement principles were changed, then a rural measure of poverty could be incorporated into the new poverty measure. But since this is yet to be determined, your question is addressed with the assumption that the same basic Orshansky methodology will be replicated for a rural measure of poverty thresholds.

Possibly, the Thrifty Food Plan could be used to determine the food costs for nonmetropolitan individuals, but it is doubtful that the food costs could be determined for a rural population (a smaller subgroup of the nonmetropolitan population). We do not know the sample size of the nonmetropolitan low-income subsample, but it may be possible to construct a Thrifty Food Plan from the 1987-88 Nationwide Food Consumption Survey (NFCS) for nonmetropolitan individuals. Only a representative from the U.S. Department of Agriculture (USDA), the agency that oversees the collection of the survey data, could advise you on reliability of data used in this manner. Again, it appears that the sample of households in the next NFCS would need to be expanded to include an adequate number of rural low-income households so the USDA could then construct a Thrifty Food Plan for rural persons.

The costs of the food plan are multiplied by the inverse of the proportion of household income spent on food. If expanded to include an adequate number of low-income rural households, the NFCS could be used to determine the multiplier for the measure of rural poverty thresholds.

The rural poverty thresholds, once determined from calculations made from the NFCS, would need to be updated to reflect inflation. Although the CPI-U could be used to do this, it would be more accurate if the changes were made with a consumer price index that measures price changes in the rural economy.

Cost-of-living

The Bureau of Labor Statistics (BLS) collects data through several surveys to determine the cost-of-living. This is a measure of the changes in prices from one month to the next. Presently, BLS produces two indexes, the Consumer Price Index for Wage and Clerical Workers (CPI-W) and the Consumer Price Index for All Urban Consumers (CPI-U). Neither of these reflect price changes that are faced by rural residents.

To develop a consumer price index for rural consumers, the Consumer Expenditure Survey (CEX) would need to be greatly expanded to include adequate representation of the rural population. The survey instrument for the CEX would not need to be altered, but the number of rural consumer units in the survey would need to be increased. These data could be used to develop the expenditure weights for a new rural price index. But to track monthly changes in the index, the BLS would also need to conduct its Point of Purchase (POP) survey in the rural areas to determine where rural people purchase their goods and services. Like the CEX, POP survey instruments would not need to be changed, but the POP would need to increase the number of rural consumer units surveyed. After BLS determines where rural consumers purchase their goods and services, then the BLS would know where to go to track price changes from month to month. In general, the BLS would not need to change the instruments for any of the surveys used to determine the CPIs. The number of households and business firms in the surveys would need to be increased. Increasing sample sizes for rural areas is likely to be more expensive than increasing sample sizes in urban areas because of transportation costs for the interviewers.

Therefore, assuming that the Orshansky methodology was used to develop rural poverty thresholds, first, the Nationwide Food Consumption Survey would need to be expanded by the U.S. Department of Agriculture to include adequate representation of low-income rural households so that Thrifty Food Plan costs for

rural individuals could be determined. Second, the Bureau of Labor Statistics would need to expand the Consumer Expenditure Survey and the Point of Purchase Survey to include a reliable sample of rural consumer units so that the rural poverty thresholds could be accurately updated.

Sincerely yours,

Kathleen K. Scholl

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Representative HAMILTON. Congressman Solarz.

Representative SOLARZ. Thank you very much, Mr. Chairman.

I want to compliment you, Mr. Chairman, for having this hearing. I think it is both timely and important. I do have a few questions I would like to ask the panel. First of all, would it be fair to say that at any given point in time what we want to know about the poverty rate in the country is both the absolute number of people living below the poverty line as well as whether that number is increasing or declining. Would that be a fair statement?

Mr. GREENSTEIN. I think, as John Weicher's testimony indicated, it is also very important to know how far below the poverty line those who are poor are.

Representative SOLARZ. To the extent that one of the things that we want to know is whether the poverty rate is going up or down, to what extent do the existing criteria, however inadequate they may be, nevertheless give us a fairly accurate picture of whether the poverty rate is increasing, declining, or remaining constant inasmuch as the criteria have remained the same and therefore you can at least tell which way the trend line is going.

Mr. WEICHER. I think by any of the measures that we would use, Congressman Solarz, we would see about the same pattern over the 25 years and certainly over the last 15 and I alluded to this at the end of my prepared statement. We have had two economic cycles where by all of the measures that we have, the poverty rate went up sharply during the recession and came down slowly during the expansion. And that is the most important single fact, I think, about poverty in the last 20 years.

Mr. GREENSTEIN. I think one thing that is interesting is that during an 8-year period from 1979 to 1987 the Census Bureau published in the same series both the official poverty line and a series of alternative measures counting noncash benefits. And as John Weicher is suggesting, under every measure the pattern was basically the same, which was that the poverty rate was considerably higher in 1987 than in 1979.

Representative SOLARZ. So, the real problem, to the extent that we have one, is not in terms of our ability to determine whether the poverty—the number of people in poverty is going up or down, but rather in terms of whether we are including all of the people that should be considered below the poverty line.

Mr. GREENSTEIN. Let me qualify my answer to the previous question. I think it depends on the length of time over which you are asking the question. Comparing the poverty rate in 1978 or 1979, peak periods of the earlier economic recovery, with today, I think that we can make some very good judgments. When you say let's look at the poverty rate in 1965 and compare that with the poverty rate today, it gets a little bit more problematic. So many things have changed since 1965 that are not captured in the way that we measure poverty, ranging from changes in what is necessary to get by and more child care costs for people who work, to the increase in the proportion of benefits provided in the form of inkind benefits that are not reflected in the poverty measure.

Representative SOLARZ. I'm sure there are many measures of poverty, but who is responsible for the official measurement? Is that the Bureau of Labor Statistics?

Mr. WEICHER. The Census Bureau.

Representative SOLARZ. And they use the Orshansky model.

Mr. WEICHER. Updated by the CPI, which is then provided by the Bureau of Labor Statistics.

Representative SOLARZ. The Orshansky model is based on some Department of Agriculture calculations about what a family needs for, I suppose, minimal food consumption. And then she multiplied it by 3 on the assumption that families spent a third of their income on food; is that correct?

Mr. GREENSTEIN. It is based on two things. It is based on survey data which was not from the Department of Agriculture showing the average family in about 1955 spent one-third of its income on food. That was why she multiplied by 3. And she multiplied the cost of the lowest cost food plan that the Agriculture Department had devised.

Representative SOLARZ. And the lowest cost food plan was based on what assumption? Was that minimal caloric intake needed to sustain health or what?

Ms. SCHOLL. It was based upon nutrition requirements which we call the U.S. recommended daily allowances today. They were much more detailed back then by age groups. They looked at food consumption data to see if what the people spent in low-income categories would fulfill those requirements. And then there was a very complex matrix of food costs developed based upon age and sex of persons.

Representative SOLARZ. If one were going to have a more comprehensive definition of poverty and put it into the English language rather than statistical terms, what would one say? Could you give us what you would consider to be a definition of poverty that the average person could understand?

Mr. WEICHER. I think we have one because, Congressman Solarz, since 1965 we have taken that basic measure which reflects a societal view of what is an adequate diet and how much income is needed to live given that you have that adequate diet. We have taken that and we have updated it regularly by the cost of living. And over those years both the cost of food and the cost of other commodities increased——

Representative SOLARZ. That isn't what I mean. Presumably a person needs enough to eat to survive and you have to have a definition of what that is. You need a roof, you have to be able to afford housing. But I think most people would probably say that beyond having a roof over your head and enough to eat there are certain other things that you need as well if you are not going to be living in poverty. Clothing I suppose is one. I don't know. Are television and radio sets or telephones considered essential, if somebody is not going to be in poverty?

In other words, what are the lists? If you need clothing, how much clothing? I mean, has anybody developed these calculations so that we can have some standard that people can look at and say, yes, if a person cannot afford to have these things in addition to enough to eat and a roof over their head, they are people whom we consider to be living in poverty.

Ms. SCHOLL. No one has, and that is what Mr. Greenstein alluded to in his testimony. We really need to develop this measure of pov-

erty and look at it very carefully, not just on one side of the equation or the other.

Representative SOLARZ. Wouldn't that be a much more sensible way to do this?

Mr. GREENSTEIN. I think the answer is clearly yes. You look at the current measure, taking that lowest cost food plan. That plan is designed in various statistical ways that depart from poor people's actual food spending. The Department of Agriculture's consumption surveys show that only one-tenth of all of the households who spend the cost of that food plan get the basic nutrients. We really need to do just what you said.

Representative SOLARZ. Is it fair to say that under the existing definition of poverty that there is no answer to the question of whether or not a person can afford a television set or a radio set or a telephone has anything to do with determining whether they are in poverty?

Mr. GREENSTEIN. That is correct, along with such things as transportation to go buy food, child care costs if you work but you are still poor. There is no answer to that.

Representative SOLARZ. I have to say that that boggles the imagination. Let me ask a few other questions. Right now in calculating whether somebody is below the poverty level are inkind benefits calculated?

Mr. GREENSTEIN. No.

Mr. WEICHER. Not in the official index. They are available——

Representative SOLARZ. That is a big shortcoming as well; isn't it?

Mr. GREENSTEIN. Yes. For certain inkind benefits.

Representative SOLARZ. Such as health benefits?

Mr. GREENSTEIN. No, such as food stamps. I would argue that there is a real difference between food stamps, housing, and health insurance.

Representative SOLARZ. You have convinced me that our present criteria is hopelessly inadequate, out of date, needs to be revised. My next question then is how does one do this? In other words, who has the authority? Supposing under the wise and benevolent and effective leadership of Chairman Hamilton this committee concludes that you've spoken the gospel and we want to do something. What would have to be done to get this changed?

Ms. SCHOLL. You asked initially—one of your first questions was who defines poverty? There are two measures of poverty that are used. One is what the Bureau of the Census uses to determine the count of people in poverty, and there is another one that is called OMB poverty income guidelines, which are used as criteria for program eligibility.

Apparently, as I understand, you would have to look at both of these.

Representative SOLARZ. Are these administratively established criteria? Can the head of the Census Bureau wake up tomorrow and say, I am dissatisfied with the criteria and send out a memo to people in the Census Bureau that beginning Monday of next week the criteria are changing, I have changed them? Does this require legislation or what?

Mr. GREENSTEIN. It does not require legislation, but I think that there is a complexity to the issue here—there is a division of roles. It is not written in law, but in practice there is a division of roles between the Census Bureau and OMB. The Census Bureau does the work on what we count and how we count it. But the Census Bureau says that the determination as to how the poverty line is set is a nontechnical issue and that is OMB's decision.

Representative SOLARZ. Right.

Mr. GREENSTEIN. The problem we then get into is that you cannot really separate them quite that way. And the further problem we get into is while I think that the Census Bureau does excellent work, I am a little bit uncomfortable having the decisions on where to set the poverty line be made by political appointees in OMB.

Representative SOLARZ. Right now OMB is determining the criteria?

Mr. GREENSTEIN. The Census Bureau does all of the technical work, but the question of whether we should go to a whole different way of determining where to set the poverty line—like your market basket approach—would have to involve OMB. OMB would have to be involved in any decision to change the poverty thresholds.

Mr. WEICHER. That would involve the entire administration, Congressman Solarz. If the head of any agency woke up and said I don't like the poverty line there would be a large number of interagency discussions back and forth involving all of the domestic agencies. This is a somewhat misleading discussion in the sense that the poverty line is determined by an established practice based on the Consumer Price Index and adjustments from year to year. And the difference between the use of the poverty data for program administrative purposes and the use for reporting purposes, it is a trivial distinction in practice.

Representative SOLARZ. How would we get them to change it if we decided that it needed to be changed? By "we," I mean the Congress.

Mr. GREENSTEIN. My own view is that one does not want to set the poverty line or the poverty methodology by legislation, and therefore there is a very important executive branch role. But first, it seems to me, we need to make a lot of progress in a nonpolitical way on this through something like a bipartisan study or a nonpartisan commission or something of that sort. I think that would be a first step.

Representative SOLARZ. In other words, you would look with sympathy at the establishment of a National Commission on Poverty, the purpose of which would be to see if a consensus could be achieved on a revised set of criteria for determining what the poverty level in the country ought to be.

Mr. GREENSTEIN. To study the issues and make recommendations.

Ms. SCHOLL. That is pretty much what was done in 1979 when the Justice Department was very concerned about sex discrimination in the thresholds. An interagency committee was developed that examined and made recommendations as to what changes would have to be made.

Representative SOLARZ. Did that committee consider the kinds of things that we have been talking about, the exclusion of inkind benefits, the fact that the criteria simply do not focus on what the actual material requirements are for someone to avoid being in poverty?

Ms. SCHOLL. I only looked at it in regard to the age thresholds, and as I understand it, that committee did not look at the elimination of the age thresholds. But I do not know if they had extensive discussion on the other two aspects.

Mr. GREENSTEIN. I think we are talking about a much more comprehensive review than that committee did, and in my view not just an internal executive branch interagency committee, but some independent nonpartisan kind of commission reviewing all of the issues that have been raised and making a comprehensive set of recommendations.

Representative SOLARZ. I gather there is no established OECD poverty standard which is applicable to all of OECD countries; is that correct?

Mr. WEICHER. That is correct, Congressman Solarz. Countries do them differently, and we really do not have comparable data.

Representative SOLARZ. Do we know if any countries base their poverty standards on this market basket approach? In other words, figuring out what a family needs in terms not only of food and housing but clothing, transportation, and the like and then adding up monetary value of that and saying if you don't have this much money you are in poverty?

Mr. WEICHER. The basic data that are reported internationally concern the distribution of income, not a proportion of the population that is unable to achieve some absolute standard.

Representative SOLARZ. Then finally I guess two questions: First, what is the policy relevance of this figure? In other words, once we determine how many people are living in poverty by whatever calculation there is, what are the policy implications of that from our point of view? And second, is it in the nature of a calculation of poverty in a capitalist system that there will inevitably always be some people living in poverty, although you can reduce it that it cannot be avoided? Or is it theoretically possible to have a society in which virtually no one is living in poverty?

Mr. WEICHER. I think it is certainly possible, Congressman Solarz, to achieve that situation. I think in practice you would find that when you went and took a survey of the population some people would still show up as poor no matter what you had tried to do. I am a specialist in housing statistics and every 10 years the Census Bureau tells us that there are a number of people living in Alaska in houses that have no heat whatsoever. There are always some anomalies. And my view is that if you have a poverty rate that was somewhere under 5 percent, I don't know what it would be, I don't know exactly where—but at some point you would have effectively eliminated poverty although you still might not be happy that you couldn't reach the last few percent.

With respect to your first question, I really think the important point about poverty, that the poverty rate is to measure progress, then you should not really be saying that the poverty rate now is 20 percent, should be measured at 20 percent instead of 13 percent,

but you should be saying what has been happening to the poverty rate over time. Either it is 13 percent and has not been coming down very fast or it is 20 percent and it has not been coming down very fast. But that is what is the most important thing.

Representative SOLARZ. But the basic judgment about poverty, as I understand it, is a relative rather than an absolute one because standards change over time. And if it is relative—I mean if you had a society, for example, where 80 percent of the people had two cars with air conditioning in each and that was now deemed a necessity, the families that only had one car, you know, in that town might be considered people who weren't meeting minimal standards. Is it true that the definition of poverty is essentially relative rather than absolute?

Mr. GREENSTEIN. The definition we currently have is absolute rather than relative. It doesn't change over time. My own view on this is that it ought to be somewhere in between. I don't think we ought to have a definition that simply says anybody with income below half the median income or a third of the median income will be classified as poor. If the median income goes way up and nobody is in hardship who is at one-third of the median income, then it is not meaningful to classify them as poor. But on the other hand, you are absolutely right, over time the definition of necessity does change somewhat.

I mentioned in my prepared statement that 100 years ago indoor plumbing or electricity wasn't a necessity and now it is. So, we need some mechanism over time to periodically take those changes into account. We don't have that now.

Representative SOLARZ. But I gather all of you agree that on a rational definition of poverty that would include a kind of market basket approach in which you figured out what a family needed to avoid living in hardship. That calculated what the dollar value of that was, and that would become your poverty line.

Mr. WEICHER. That would be rational, but then I think the most important thing would be to carry it back over time and seeing how you were doing on that definition rather than just say in my judgment the poverty rate should be measured at 20 percent instead of 13 percent today.

Representative SOLARZ. You all would include relevant inkind benefits in the calculation of whether or not a family was in poverty.

Mr. GREENSTEIN. I think there is some disagreement on the panel here on that. I would look toward including those types of food and housing benefits that are somewhat like cash, that can easily be measured and that really impact on a family's day-to-day needs. I would not include health insurance. I think that is a very different kind of benefit. There is no good way to measure it. And I think counting health insurance as income just confuses the measure more than improves it. You end up getting certain groups where very small numbers of people in the group get various kinds of new expensive treatments. Then you end up making the population as a whole look less poor because they have a card for Medicare or Medicaid. It becomes not very meaningful.

Ms. SCHOLL. AARP does not support the inclusion of inkind benefits in the definition of poverty. We encourage further research, but we are not ready to agree to that.

Representative SOLARZ. Mr. Chairman, I hope that you will give some thought to the possibility of our recommending the establishment of some kind of commission to comprehensively review this. I think this panel has made a very convincing case that the current criteria are outdated and inadequate and it is obviously a very technical question which doesn't lend itself to the legislative process. But I would hope that if we could somehow get together some of the leading economists and others in the country to look at this question, it might be possible to come up with a recommendation that would give us a much more accurate measure of this problem.

Representative HAMILTON. I thank the gentleman. I gather from the responses to the questions you have been asking, Congressman Solarz, that redefining poverty is a very formidable task; correct? And I just wonder—I am also of the impression that two out of three of you would like to launch on that task, and the third not; am I correct about that?

Mr. WEICHER. I think that is correct.

Representative HAMILTON. If we were to undertake what Congressman Solar is suggesting, as I understand it, it would be to come up with a whole new poverty index based on what you have described as a market basket concept. It really goes to the idea of measuring need. It seems to me that that has enormous ramifications; doesn't it, for government and for all of our programs, correct? And so it is a formidable task. It doesn't mean that it ought not to be undertaken, but it really would get into all kinds of social programs; right?

Mr. GREENSTEIN. I would hasten to add that I am not recommending that there be a commission or that the commission's recommendations automatically take affect. If the commission found that it was too formidable or too difficult to make recommendations, or the policymakers viewed the commission's recommendations as having ramifications that they didn't agree with, they wouldn't have to adopt them. But at least we would have something to look at and consider to enable us to make progress from where we are. No, we wouldn't be locked into it.

Representative HAMILTON. I want to be clear about the present system. We have what we call a poverty index. That index is not determined pursuant to any statute; is that correct?

Mr. GREENSTEIN. There are references in various statutes to the poverty line, but then it is left up to the executive branch to determine what that poverty line is.

Representative HAMILTON. And that means basically it is determined by the OMB; is that correct?

Mr. WEICHER. It is determined by the Census Bureau and the census reported poverty lines. They are adjusted by OMB for purposes of calculating benefits.

Representative HAMILTON. This whole business of the poverty line, as I understand it, is based on Orshansky's 1963 approach; right?

Mr. WEICHER. Yes.

Representative HAMILTON. And she measured it by referring to some food consumption guidelines from the Department of Agriculture and multiplying by 3; right? And that has been locked in now. I will follow up some more on this in a moment, but first, Congressman Upton.

Representative UPTON. Thank you, Mr. Chairman. I apologize for being somewhat late, and I want to follow up on a couple of questions that have been raised here. Mr. Weicher, what is your view with regard to changes that have to be made in the computation of these poverty measures? And if changes were made how easy would it be to go back and reflect the data so that you would be able to actually see some real comparison going back 20, 30, 40 years perhaps? Is it your view that we should, in fact, make some changes?

Mr. WEICHER. No, it isn't really, Congressman Upton. The basis of the poverty line, as it was established in the mid-1960's, was an attempt to define something like a minimally adequate standard of living. But it was not really a dividing line between being able to live a decent life or unable to live a decent life. And since then we have updated it regularly by changes in the cost of living. And I think that after 25 years, during which we have not eliminated poverty, we have a fairly consistent measure over time which tells us how we are doing and that is the most important purpose for it. If we chose a different definition as Congressman Solarz was suggesting might be appropriate, then I thing that the appropriate thing would be to go back. And one would have to go back by the Consumer Price Index or some other measure of price level and say that if the standard now is $20,000 instead of $12,000, then how many people over the years would have been poor on the basis of that level of real income.

I think that it would be useful to get information of what people actually consume. What is necessary for a minimal standard of living is going to be very much a judgment decision beyond certain minimum criteria like food, housing, medical care, and clothing. And beyond that it becomes a policy question, a question of societal norms.

Representative UPTON. On a light note, I didn't have air conditioning in my automobile until I came to Washington, and thank goodness I sold that automobile in the winter. I don't think I would have been able to sell it in the summer. I would be interested in the panel's discussion, maybe to go back a little bit, looking at these inkind benefits, insurance and that type of thing. Aren't they more important now than they were in the mid-1960's? Haven't we seen a general trend with regards to that?

Mr. GREENSTEIN. I think the answer is yes, but there are two areas I think we have to be careful about. The first is that you cannot simply start putting an income value on the inkind benefits and counting them without at the same time rethinking where the poverty line should be set. The methodology used to set the poverty line back in the early 1960's was based on cash expenditures. The thing that would be most distressing and do violence to any kind of consistent measure of poverty would be to start assigning some value to Medicare and Medicaid. You get into huge dollar numbers that get put on those benefits because medical treatment is so ex-

pensive, if you start counting those benefits and not changing the poverty line thresholds. At one point under one method the Census Bureau used as an experimental method--they did not recommend adopting it until a year or two ago—you found that in the average State all elderly couples getting Medicare and Medicaid were said to have an income above the poverty line, even if they didn't have a penny to their name. Now, most of us would agree that there is something absurd about saying that if you have Medicare and Medicaid and you can't buy any food, you're not poor.

So, I think that that leads to two things. No. 1, my own view is that there is a fundamental difference between health insurance, where if you get sick you have coverage, and the food and housing benefits that enable you to buy food each day and pay the rent each month. I do not think there is merit in counting the health insurance. I think probably you can't come up with a reasonable way to do it.

And No. 2, if we begin counting the inkind benefits, then it really is incumbent upon us to rethink the way in which, and the level at which, we set the poverty line.

Mr. WEICHER. I disagree with that. In the mid-1960's you had to meet your medical costs out of your cash income from whatever source. Now we have established a policy that for poor people we provide some health benefits in the form of Medicare and Medicaid that certainly improves the well-being of the poor people and it ought to be reflected as best we can in our measures of poverty, in our general measures of economic well-being among the poor. I think that it is difficult to measure medical care exactly. You can convene a group of experts as was done at Williamsburg a few years ago and get many different defensible views of exactly how to do it. But to ignore it or to say that we ought to change the basic measure simply because now we provide the benefit in a form that we didn't formerly provide it, I think that that is inappropriate.

Ms. SCHOLL. I think what has been lost here is that prior to the Orshansky methodologies developed in the 1960's, poor people did receive assistance and it was not necessarily through the Federal Government. It may have been through local churches. It may have been through the county; it may have been through the county hospitals. It did not show up in accountable measures that we have today. And these benefits were not channeled through Federal programs, where we now know better how much these expenditures cost taxpayers. To provide them you would have to go back to do something like what Mr. Weicher is suggesting. You would have to try going back and figure out the value of the benefits those people received back then when we really don't have a record of how much they received or what kind of help or who helped them.

Mr. GREENSTEIN. If I could, Congressman Upton, I would like to add in response to Mr. Weicher that the health care system in the 1960's was totally unlike the health care system today, and there were not expenses for poor people, comparable to those that you get by taking an insurance value for Medicare and Medicaid. John Weicher mentioned the Census Bureau's conference of experts in Williamsburg in December 1985. What he didn't mention was that there was a consensus among the experts there about counting

medical benefits. The experts disagreed as to whether you should count them or shouldn't count them. But they agreed that if you count medical benefits, then you really need to change the poverty threshold. And if you look at the Census Bureau reports, every year now the Census Bureau repeats this quote—that the experts agree that if you count medical benefits you have to change the poverty line. It is in every annual Census Bureau report.

Representative UPTON. What if you counted nonmedical inkind benefits?

Mr. GREENSTEIN. That is not as controversial. Are you asking should you count them or if you counted them?

Representative UPTON. If you did would there be some agreement here that nonmedical inkind benefits should be counted today versus 1960?

Mr. GREENSTEIN. I think we have some disagreement on the panel on that. I think all three of us have a somewhat different view. My view is that it probably makes sense to count something like food stamps, but only as part of a comprehensive look at all of the issues related to measuring poverty including how and where we set the poverty line. I happen to think that how and where we set the poverty line should be modified in the way that Congressman Solarz suggested.

In conjunction with that, I think that we should begin counting things like food stamps.

Mr. WEICHER. I think you should count the value of food stamps. They are essentially cash from the standpoint of the recipient and they should be counted. I think housing should be counted, and I think it should be counted better. We spend about as much per family on housing benefits as we spend on Medicare or Medicaid. It does not turn into as large of a dollar expenditure because housing is not an entitlement. But we are providing at HUD, several thousand dollars, about $4,000 to $4,500 per family which receives housing assistance. That is a real benefit. It is hard to measure. And in my prepared statement I discuss the problem a little better, and I think that efforts should be devoted to measuring it better. But it certainly is a real benefit to people who are residents in subsidized housing. They are clearly better off in that dimension than the people who are not. And that should be counted as well.

Representative UPTON. Let me ask one further question. The chairman and I have both served a number of times as members of the United States-Canadian Interparliamentary Group. I would be most interested to know what your thoughts are if you have some knowledge with regard to how other countries, particularly Canada, might gauge their poverty indices. And what differences there might be in determining that—do you have any?

Ms. SCHOLL. I am not that familiar to discuss the Canadian poverty index.

Representative UPTON. Do other countries have a similar methodology to ours?

Ms. SCHOLL. I believe no. No, they are not defined like we have defined the poverty line.

Mr. GREENSTEIN. I know a little, but not very much about the Canadian measure. I am not saying that we should adopt it, but I think it would be interesting to look at it more, to see what we

think, whether we like it or whether we dislike it. I do think that the Canadian system attempts to make a judgment as to what necessities are needed at various points in time or at least to look at changes over time in what is necessary. I think John Weicher has been saying that he is more familiar than I am. He has been saying that in Europe the measures are more measures of relative inequality than measures of who is below a certain standard presumed to be a standard for necessities.

Mr. WEICHER. Essentially what I am saying is slightly different than that. The available information on comparisons between countries is based on the income distribution rather than on an absolute level such as we have. But I think that it is also fair to say that none of us are really knowledgeable about the details of what individual European countries do.

Representative UPTON. Thank you.

Representative HAMILTON. Congressman Solarz.

Representative SOLARZ. Thank you, Mr. Chairman.

I just have one question. Ms. Scholl, I was somewhat surprised to hear you say that it is the position of the AARP that no inkind benefits at all should be considered in the calculations of the poverty index. Now, I can certainly see the argument that medical benefits shouldn't be included, but I am not at all sure that I can understand the logic by which food stamps, for example, or housing subsidies should be excluded in as much as shelter and food are, obviously, essentials in terms of avoiding poverty. And if somebody can get their housing for less than they would have to pay in cash or their food for less, that clearly enables them to achieve a standard of living that otherwise wouldn't be possible.

So, what is your basis for excluding those?

Ms. SCHOLL. There are two things basically. One was the point I made before. This assistance was provided back then and it wasn't measured either then. So, therefore, if you are going to change, you would need to change the concept of what is the poverty threshold itself. And what we are saying is that it has not been changed, and therefore you should not start counting something that was not counted back then. It was available to the poor. They took advantage of it, but it was not measured. And because it was excluded then it probably should be excluded until there is further research and the whole thing has been reexamined.

Representative SOLARZ. That is your argument; that's it?

Ms. SCHOLL. Basically.

Representative SOLARZ. You wish to add nothing?

Mr. GREENSTEIN. I would like to add two points. One, I contend first off we should not be talking about counting any noncash benefits without at the same time moving to a measure of aftertax rather than pretax income. You cannot say food stamps are available to buy food and they increase disposable income while ignoring money withheld from paychecks for income and payroll taxes. And that is the larger point.

I do agree, as I have said a few moments ago, that it makes sense to include food stamps and some housing subsidies, but I have real difficulty with us making only that change. We need to look at a whole series of issues together.

Ms. SCHOLL. I think that is why AARP is not willing to agree to part of the whole problem.

Representative SOLARZ. If the whole thing were redefined along the lines that Mr. Greenstein was suggesting, would the AARP still object to the inclusion of inkind benefits as part of the calculation of income?

Ms. SCHOLL. I as a staff member cannot say what our policy is going to be. We have an official legislative process and we would need to bring that before our council to determine what their feelings are on that. But I would think they would have an open mind if we were going to reexamine the whole issue of how poverty is defined, and they would be willing to be openminded about that.

Representative SOLARZ. Thank you very much, Mr. Chairman.

Representative HAMILTON. Thank you, Congressman Solarz.

Ms. Scholl, I think that you said in your testimony that there are a lot of people with incomes that are very near the poverty line and so when you make an even small adjustment in that line it has a big impact on the number of people considered poor. Would you elaborate on that a little bit for us? How much is the impact when you move it a modest amount?

Ms. SCHOLL. I have a chart in my prepared statement that I did not discuss in my oral statement. It is chart No. 2. Basically, this chart depicts the incidence from the poverty thresholds. Normally what has been discussed in the past was the percentage of poverty thresholds like 125 percent. We are looking at something different in this chart. This is the dollar amount from the threshold for individuals. And the point of this particular chart, which is the dark bars, that the older population 65 and older are closer to the poverty line than other age groups. And so, therefore, our concern is that the poverty line should be accurate. We want to make sure an accurate measure wouldn't exclude those who are poor right now because of the age threshold. There are several people who are in need of assistance that are not recognized as such.

Representative HAMILTON. So, you change the methodology a little bit in how you compute poverty, and you change the concept that we have of the size of the poverty problem that we have in this country; right?

Ms. SCHOLL. Right.

Representative HAMILTON. Mr. Weicher, do you think that there is therefore a bureaucratic resistance to changing the poverty index because it would make the poverty level so high in the country and cast doubt therefore upon the policies of a particular administration?

Mr. WEICHER. I don't think that bureaucratic would be the word. I think the measure of poverty—because poverty is what people talk about in the newspapers—the issue of what the poverty rate is becomes politically charged. It becomes emotionally charged. And we get people, as I mentioned some examples in my testimony, who make an argument for changing or not changing the poverty line because of the political consequences. And I think that my own view is that the kind of distributional issue that is addressed in Ms. Scholl's statement, and in your question, if you lower the poverty line a bit you will find basically a similar composition of that poverty population, except you will find fewer elderly. If you raise the

poverty line a bit, you will find a similar composition, except you will find more elderly. The elderly tend to cluster on both sides of the poverty line, rather close to it.

Representative HAMILTON. I am interested in the politics of it, too, though. And I don't mean this in a partisan way. After all, we had a Democratic administration in and they didn't go about changing the poverty line concept. Our Republican administration hasn't done it either. But I can appreciate the fact that if you are in office, whether you are Republican or Democrat, that you are going to have a lot of resistance to the idea of changing this concept because it is going to make you look worse; right?

Mr. WEICHER. I think that is right and I think the other side of it is that if you're out of office you might want to change the concept.

Representative HAMILTON. The opposite side is also true; sure. That's right.

OK, on the elderly, Ms. Scholl, did you say in your statement that the poverty thresholds are lower for older people?

Ms. SCHOLL. Yes, they are.

Representative HAMILTON. I don't think I understood why that is the case.

Ms. SCHOLL. It is basically because of the economy food plan which was developed for the elderly.

Representative HAMILTON. They don't need as much food?

Ms. SCHOLL. It is not that they don't need as much food, it was based upon exactly what they consume and how that met the nutritional guidelines at that time. And it may be that it was because they had less income in the first place that they had less to spend on food.

Representative HAMILTON. Is there evidence today that the elderly need less than the nonelderly overall?

Ms. SCHOLL. Currently what is called the thrifty food plan, which replaced in concept the economy food plan, no longer has food plans for those 65 years and older. The highest age group is age 51 and over. So, therefore, it appears that nutrition experts would say that there is no longer justification for differential treatment for the older age group.

Representative HAMILTON. You hear a lot about how successful we have been in reducing poverty among older people and the poverty rate has fallen dramatically for them. Is that your perception also?

Ms. SCHOLL. That is true.

Representative HAMILTON. Is that largely because of what, Social Security programs?

Ms. SCHOLL. Yes, it is.

Representative HAMILTON. So, older people are less likely to be poor today than nonelderly people; right?

Ms. SCHOLL. The older group, which is 65 and older, has the highest poverty rate among adult age groups. The poverty rate for children is higher than that for 65 and older.

Representative HAMILTON. Wait a minute. Say that again for me.

Ms. SCHOLL. The poverty rate for those 65 and older——

Representative HAMILTON. Is higher?

Ms. SCHOLL. Is higher than that for any other adult age group. But the poverty rate for children is higher than the poverty rate for those 65 and older.

Representative HAMILTON. I see.

Mr. GREENSTEIN. Can I add one quick point? I think this is again the question of whether you have a separate lower poverty line for the elderly. If I remember, there is a chart in Patricia Ruggles' book that shows that if you use the same poverty line for the elderly as for everybody else, than the poverty rate for the elderly is higher than for the nonelderly. If you use the lower poverty line for the elderly that is part of the current official definition, only then is the poverty rate for the elderly below that for the nonelderly population.

Representative HAMILTON. OK. Now, the Census Bureau does put out some poverty measures that include noncash benefits; do they not? And that includes what, food stamps and what else?

Mr. WEICHER. Subsidized housing. It also includes other kinds of food distribution programs, school lunch programs.

Representative HAMILTON. It does not include medical benefits?

Mr. WEICHER. It does. They put out many measures. Some include Medicare and Medicaid and some do not.

Ms. SCHOLL. There are 12 measures right now that they use, 12 different measures of income.

Representative HAMILTON. For various purposes.

Mr. WEICHER. For information purposes essentially. You can get measures of poverty for 1 year at least, which tells you what the effect is of taxes. The point that Bob Greenstein referred to, you can separate all transfer payments, cash payments, income benefits in a variety of ways.

Mr. GREENSTEIN. But these are all experimental; they are not the official measures.

Representative HAMILTON. I wanted to ask you, Mr. Weicher, about this CPI-U-X1 which sounds like a new weapon system. [Laughter.]

Mr. WEICHER. It's cheaper, Mr. Chairman.

Representative HAMILTON. That's encouraging. What is it?

Mr. WEICHER. It's a price index, an experimental price index which was developed in the late 1970's because of recognition by BLS and by other analysts that the way that we had measured the cost of housing and home ownership was really inappropriate in a period of inflation. And essentially what it does is it measures the cost of home ownership on the basis of what you would have to pay if you rented your home. And it is the same method which is used that——

Representative HAMILTON. The CPI does not do that?

Mr. WEICHER. The CPI now does. Part of the problem is that the CPI switched the way that it measured the cost of home ownership in 1983. The old method measured essentially what does it cost you to buy a home, which not very many people do, and it swung very heavily on the interest rate.

One final point on this, the CPI-U-X1 measures the cost of home ownership in the same way that it has been measured in the National Income and Product Accounts for many years. While it is an experimental index, it is based on the same body of data that is used in the National Income and Product Accounts. There is more behind it than I think Ms. Scholl's statement suggests.

Representative HAMILTON. But the important point is that CPI-U-X1 takes into account rental housing; correct?

Mr. WEICHER. No. It measures the cost of owning a home on the basis of what it would cost to rent. Both indexes measure the cost of renting in the same way.

Representative HAMILTON. What is the impact of that? If you calculate that the poverty threshold for a family of three is less than whatever it is, $8,700 or whatever, under your revised thresholds, what is the impact?

Mr. WEICHER. In today's terms you lower the poverty lines by 9 percent and you lower the poverty rate today by 1½ percentage point, by about one-eighth.

Representative HAMILTON. To what extent is the CPI-U-X1 used?

Mr. WEICHER. It is used on an experimental basis. It is reported in appendix F, I believe it is, of the Census Bureau's 1988 Preliminary Report on Income and Poverty. It has been used by a number of analysts. It has had, I think, general recognition among analysts that it is a more appropriate way for measurement purposes. Whether or not you want to incorporate it in policy is something else.

Representative HAMILTON. It is not used today for policy?

Mr. WEICHER. No, except that it is the method that has been used since 1983 to adjust the Consumer Price Index. We now measure the cost of home ownership in the official index the way we measured it in the experimental index before 1983.

Representative HAMILTON. When we talk about the poverty line, the official poverty line, we are not including that in any way?

Mr. WEICHER. We are including it in the measure since 1983.

Representative HAMILTON. Since 1983?

Mr. WEICHER. Yes, that's right. We have a hybrid measure of the cost of home ownership, one before 1983 and another after 1983.

Representative HAMILTON. Well, I think that wraps it up. Thank you very, very much for a good morning and good testimony. We appreciate having you and the committee stands adjourned.

[Whereupon, at 11:44 a.m., the committee adjourned, subject to the call of the Chair.]

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